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AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1991

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

ON

H.R. 5268

AN ACT MAKING APPROPRIATIONS FOR RURAL DEVELOPMENT, AGRICULTURE, AND RELATED AGENCIES PROGRAMS FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1991, AND FOR OTHER PURPOSES

PART 1 (Pages 1-778)

Commodity Futures Trading Commission
Department of Agriculture
Farm Credit Administration
Farm Credit System Assistance Board
Food and Drug Administration

Printed for the use of the Committee on Appropriations

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AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1991

WEDNESDAY, FEBRUARY 28, 1990

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 1:07 p.m., in room SD-138, Dirksen Senate Office Building, Hon. Quentin N. Burdick (chairman) presiding.

Present: Senators Burdick, Bumpers, Harkin, Kerrey, Cochran, Kasten, and Grassley.

DEPARTMENT OF AGRICULTURE

OFFICE OF THE SECRETARY

STATEMENT OF HON. CLAYTON YEUTTER, SECRETARY OF AGRICULTURE

ACCOMPANIED BY STEPHEN B. DEWHURST, BUDGET OFFICER

OPENING REMARKS

Senator **BURDICK**. Good afternoon, ladies and gentlemen. Today we begin our hearings on the fiscal year 1991 budget for Agriculture, Rural Development, and Related Agencies.

With us to kick off our hearings we have the Secretary of Agriculture, Clayton Yeutter. Accompanying him is Stephen Dewhurst, Budget Officer for the Department of Agriculture. Welcome to both of you.

The President's budget for the programs under the subcommittee's jurisdiction totals almost $50 billion, 99 percent of which falls under USDA. While this budget appears to be a $6 billion increase over 1989, if we look in just four areas, we see the increase does not represent a real program increase.

Almost $2 billion of the increase is for the Commodity Credit Corporation reimbursement of losses, money that has already been spent. Similarly, $2.5 billion of the increase is for reimbursements to the Farmers Home Administration, revolving loan accounts, and almost $1 billion increase each go to what we consider the mandatory programs of the Conservation Reserve Program and the Child Nutrition and Food Stamp programs. These increases alone total well over $6 billion.

Therefore, we are looking at a net reduction for the USDA programs in the budget, not enough to keep up with inflation, not enough even to freeze spending, but a reduction. And that is before we look at the significant reductions in REA and the FmHA direct loans.

Mr. Secretary, I will save my other comments and questions for later. At this point I would like to recognize other Senators with opening statements. We would then like to hear from you and finally we will throw it open for questions.

Since there are no other Senators present, I would yield to you.

STATEMENT OF SECRETARY YEUTTER

Secretary **Yeutter**. Thank you, Mr. Chairman. It is good to be back. I was going to offer, Mr. Chairman, to take off my glasses and level the playing field if that would help. [Laughter.]

But that will now not be necessary.

We do have just a slight increase in the budget for agriculture for the coming fiscal year as you indicated in your opening remarks. It is assuredly an austere budget, our judgment being that that is necessary with the Gramm-Rudman-Hollings disciplines being what they are for fiscal 1991. You are well aware of those, so there is no need to go into them.

Our overall budget has a nominal increase as compared to the prior year. The farm income support part of the budget which is of interest to a lot of folks, of course, shows a reduction from baseline of about $1.5 billion, but that too has to be kept in perspective because it represents an actual increase over estimated fiscal 1990 spending of about $2 billion.

I would like to spend my limited time, Mr. Chairman, concentrating on a few of the new priorities that are there just because I believe those are of some interest, even though they do not involve major spending.

NEW SPENDING PRIORITIES

One is in the area of food safety. There is a lot of interest in that subject today, as you well know, including a Presidential initiative that was articulated a few months ago. Legislation on food safety is pending in both Houses at the moment and I am told that the relevant Senate committee may mark up some of that legislation in the next few days.

We feel we need some additional data bases in that area or improved data bases, and so this budget includes an additional $40 million, or thereabouts, in that area. This increase will also give an excellent thrust in the research done by our agencies in the food safety area.

More generally with respect to research our view is that if we are to maintain our technological edge in agriculture over our competitors, we have got to invest in the future and, therefore, we have worked hard on what we call our national research initiative. This has been embraced as a Presidential effort as well as a departmental effort.

We have an additional $100 million in this budget on the research side with commitments out of OMB to increase that by another $50 million per year in the future. So, we hope we can give a healthy boost to agricultural research.

Another new initiative in the budget which was an add-on within the administration because it, too, is a Presidential initiative is what has been called the America the Beautiful Program which calls for additional efforts in forestation. The intent is to try to boost tree planting by about 1 billion trees a year which would certainly be by far the largest tree planting effort ever undertaken in this country. We have this initiative organized now with the Forest Service playing a major role.

The Forest Service part of the budget is somewhat separate from the discussions here today, but it is relevant to the overall picture.

Water quality is another initiative. This committee and the agricultural committees have expressed strong interest in that subject over the past few years, and the Department in recent years has begun to engage in more activity in the water quality area, particularly in research.

This budget will add to that by moving the total from about $150 million in the present fiscal year up to over $200 million in the fiscal 1991 budget.

Global change is also an area of some interest, even though it is controversial as to whether we are having global warming or global cooling. Whatever it is, there is concern about air quality and the potential effect that pollution may have on the Earth's atmosphere. That, too, requires an accelerated research effort, not only in our Department, but elsewhere in the Government as well.

Our segment of that additional research effort is an additional $26 million, and we have put a little additional money, about $8 million, in for the 1890 institutions providing for a slight increase over last year.

PRINCIPAL POLICY SHIFTS

With respect to some of the principal policy shifts that are reflected in this budget, I might indicate just a few. One of them would relate to the conservation reserve. As Senator Kerrey knows from my presentation to the Agriculture Committee, we are proposing some changes in the operation of the conservation reserve. We would propose to remain with a 40-million-acre target, but change the emphasis of that program more toward water quality and wetlands restoration. These changes would also alter the thrust of that program to a significant degree as it moves from the present 34 million acres and heads into the other 6 million acres to reach a total of 40 million acres.

On Farmers Home Administration, as you mentioned, Mr. Chairman, in your opening remarks, we have a very tight budget but we have shifted the modus operandi, and tried to develop a menu of potential loan programs in Farmer's Home including interest buy-downs.

One of my concerns, as I viewed this program a year or so ago when I first arrived, is that we seem to be operating the Farmers Home Administration at either one of the two ends of the lending spectrum. We provided either direct lending programs at quite low interest rates which are heavily subsidized or guaranteed programs at commercial rates of interest, which were beyond what some of the traditional Farmers Home borrowers could afford.

And so we have included interest buydown provisions in this budget so we can offer lower interest rates on our guaranteed loans. We believe that this proposal will make a lot of sense in the administration of Farmers Home programs. We can get more bang for the buck and run a credible and rational Farmers Home lending program in that manner.

In farmer programs this applies to farm operating loans and farm ownership loans. In housing we have broadened that potpourri of options even a little bit more by using the combination of all three of the techniques that I mentioned plus a voucher program, too.

As for school lunches, as you will see, we tried to respond to the various severe budget constraints by making some adjustments in the way school lunch programs would be handled. That is incorporated in this budget.

We have also done some tightening in the Food Stamp Program both with respect to the integrity of the program and in some of the administrative requirements as well.

There will be considerable discussion, of course, about how we handle crop insurance and disaster legislation in this budget and in the farm bill legislation as well. That is a complicated area that I will not go into today unless you wish to pose some questions in that area.

And then finally, you will see an increase in user fees in this budget in a number of areas, the total increase being something in the vicinity of $100 million.

CREDIBLE PROPOSALS

There are some other changes that could be mentioned, Mr. Chairman. I would only say that we worked very hard for this to make this a credible budget. Our instruction to our folks as they worked on the USDA budget this year was that I did not want to see proposals that would be declared dead on arrival here in the committee as they often have in the past.

Some of those proposals have been made over and over again over a period of years. I do not think that it is helpful budgeting either for you or for us. It may make the numbers come out right, but it does not really serve the appropriations process.

So, you will note that programs like ACP are funded this year where they have not been proposed for funding by the administration in past years, and we have made a number of other changes which were intended to make this budget the most credible one that has come over from the Department of Agriculture in a good many years. I hope it will be viewed in that light by the committee because we have spent a lot of time on it.

PREPARED STATEMENT

Steve points out that I should offer to put my complete statement in the record, Mr. Chairman, and so I hereby do that. And I will be happy to turn the microphone back to you, Mr. Chairman.

[The statement follows:]

STATEMENT OF CLAYTON YEUTTER

Mr. Chairman and members of the Committee, I am pleased to appear before the Committee to discuss our fiscal year (FY) 1991 budget proposals.

Not only will the budget command a lot of attention this year, but we must also develop a new 1990 Farm Bill and complete the GATT trade negotiation now underway in Geneva. This is a year of choices—choices about how best to achieve deficit reductions, how best to design farm legislation to maximize agriculture's potential in the marketplace, and how best to achieve meaningful changes in the world's agricultural trading rules.

The major focus of this Committee is, of course, the Department's request for appropriations to carry out programs for farmers, ranchers, consumers, and the needy. I would describe the Department's fiscal year 1991 budget request as austere. We believe we have done a good job in putting together a credible budget, while including a number of new budget initiatives that are worthy of funding.

Before addressing our specific budget proposals, I would first like to review the current state of U.S. agriculture.

CURRENT AGRICULTURAL SITUATION AND OUTLOOK

The agricultural sector begins the new decade in a much more financially secure and economically sound posture than was the case in the early and mid-1980's. Net farm income in 1989 was at a record level of about $48 billion and net cash farm income, at about $53 billion, was above $50 billion for the fourth straight year. These favorable aggregate net income figures are in part due to improved market receipts from crops and livestock fueled by a recovery in agricultural exports.

Exports in fiscal year 1989 totaled about $40 billion, up from $35 billion in fiscal year 1988 and nearly 50 percent above the fiscal year 1986 level of $26 billion, which was the low point for the decade. The agricultural balance sheet has stabilized in concert with the improved farm income picture. Farmland values rose about 7 percent in 1989 following modest increases in the two preceding years, effectively reversing a long decline.

The financial adjustment has also included a reduction in total farm debt of well over $50 billion since 1983. As a result, the debt-to-asset ratio for the agriculture sector as a whole at 16 percent in 1989 was slightly more favorable than it was in 1980 and substantially improved from the 23.5 percent level of 1985. Although some problems and uncertainties remain, the economic and financial health of U.S. agriculture as a whole has recovered substantially from the severe stresses of the past decade.

The recovery is also reflected in improved financial conditions for farm lenders as well as improved conditions for a number of other agricultural input suppliers, and agriculturally dependent businesses.

Fundamental changes in Government programs to allow more competitive pricing of U.S. farm products in world trade facilitated the turnaround in export sales as did improved macroeconomic conditions. As burdensome surplus stocks have been reduced, commodity prices have strengthened and support program costs have moderated over the past three years. Nonetheless, dependence on Government payments remains relatively high for producers of some commodities.

OUTLOOK FOR 1990

Commodity prices are expected to be relatively favorable due to strong demand and declining stocks of most crops with the possible exception of feed grains and oilseeds. Production may rise as acreage reduction requirements for wheat, cotton, and rice are lessened bringing more acreage into production.

Potential record meat supplies and bigger crops should moderate food price increases. Retail food price rises of 3 to 5 percent are likely in 1990. This is below the drought-induced rise of nearly 6 percent in 1989. U.S. agricultural exports may decline slightly to about $38 billion in fiscal year 1990, in part due to tight U.S. wheat supplies and increased production abroad. Livestock and poultry output is expected to rise in 1990.

This outlook is sensitive to supply developments both in the U.S. and abroad over the coming months. The longer term outlook for exports will be highly dependent on policy developments both in the U.S. and abroad, as well as on general economic conditions.

Farm income is likely to be relatively stable in 1990 with net cash income likely to rise slightly to the $52-$57 billion range. Net farm income may drop slightly to the $44-$49 billion level as moderating prices dampen the value of the fall 1990 harvest.

Continued strengthening of agriculture's financial position is likely in 1990. Land values may rise another 4 to 7 percent and although farm debt likely will rise slightly, farm equity is expected to increase.

As more land goes back into production in 1990 and as commodity production increases, business activity in rural and nonfarm agriculturally dependent businesses may continue to expand.

1990 FARM BILL

In early February, the Administration offered to Congress and the public its proposals for the 1990 Farm Bill. The underlying theme of the agricultural related proposals is increased market orientation and competitiveness. If American agriculture is to grow and prosper during the 1990's, we must be able to respond to new opportunities in domestic and world markets.

Our proposals are designed to continue the transition begun with the Food Security Act of 1985 of moving American agriculture to a more market-oriented basis. Thus, we have made proposals on price-support programs, planting flexibility, stocks policies, and farm credit which are designed to have American farmers respond more to market signals, and less to government programs. Of particular importance are our comprehensive flexibility proposals which are intended to enhance production efficiencies, while also encouraging environmentally sound production practices.

To bolster our competitiveness in international markets, we have offered proposals for increased investment in research and technology. Export promotion programs, which have been instrumental in regaining overseas markets and challenging the unfair trading practices of other countries since enactment of the Food Security Act of 1985, should be extended.

While we seek to foster a competitive U.S. agriculture, our proposals also recognize the national concern for the environment and the conservation of our land and water resources. Our proposals are designed to enhance the resource stewardship of American producers by providing greater production flexibility, incentives to change resource use in targeted, environmentally-sensitive areas, and further research, education, and technical assistance.

We believe our 1990 Farm Bill proposals are consistent with our deficit reduction objectives. Some of the proposals should lead to higher commodity prices, thereby reducing the budget exposure for deficiency payments. Others, such as those to tighten standards and increase efficiencies in the administration of our credit and marketing and inspection programs will also achieve spending reductions. At the same time, new initiatives in conservation and the environment and in research and education will require additional funding. In food programs, we have renewed our commitment to the needy with our proposals to improve program integrity and streamline administration.

URUGUAY ROUND NEGOTIATIONS

Besides deficit reduction and the enactment of new farm program legislation, the other major challenge we face during 1990 is reaching agreement in the Uruguay Round of multilateral trade negotiations on the liberalization of world agricultural trade. These negotiations hold tremendous potential for American agriculture, and they may well prove to be the most important round of multilateral negotiations on agricultural trade ever held.

The United States has submitted a comprehensive proposal which will provide for a more market-oriented system of world production and trade. Our proposal calls for improved market access, more market-oriented domestic farm programs, a phasing out of export subsidies, and health and sanitary regulations based on sound scientific evidence. Domestic farm programs here and in other countries which do not distort trade would be unaffected.

Other countries have now joined the United States in submitting detailed negotiating proposals on agriculture. This sets the stage for a year of very tough, intense negotiations before the Uruguay Round concludes next December. During the coming months, we will need to achieve agreement with our trading partners on the specifics of a long-term reform program, along with a timetable for its implementation.

We are fully committed to a successful conclusion of the Uruguay Round, including an agreement which ensures our farmers improved market access and the right to compete internationally. Achievement of these objectives will provide the foundation for future economic growth and prosperity for American agriculture, with benefits for producers, consumers, and taxpayers alike.

Should we reach an agreement with our trading partners in the Uruguay Round, that accord will be brought back to the Congress next year for approval. Modifications of our own farm policy structure may then be in order, as our trading partners simultaneously modify their own structures. More than likely this will occur over a period of at least 10 years. If we sustain and enhance our international competitiveness during that period, our exports should rise, farm income should increase, and income supports should decline accordingly.

Since the Uruguay Round negotiations are net yet concluded, we believe it prudent to maintain aggressive export promotion programs in the 1990 Farm Bill and in our fiscal year 1991 budget.

BUDGET SITUATION FOR FISCAL YEAR 1991

The program level or financial value of all the Department's program activities for fiscal year 1991 is projected at just over $68 billion. This level of activity is up $1.7 billion over the current estimate for fiscal year 1990. Outlays for fiscal year 1991 are estimated at nearly $49 billion, slightly above the fiscal year 1990 level. Though outlays will change little between fiscal year 1990 and fiscal year 1991, we are proposing spending restraints compared to what would occur under the so-called current services baseline. Most of our changes are in the form of proposed legislation.

In terms of this subcommittee, we are requesting appropriations totalling $44.3 billion to finance USDA programs under current law. This is substantially above the 1990 level for reasons that I will review during the course of this statement.

At the outset, it should be noted that the Department's fiscal year 1991 budget reflects the implementation of a number of important initiatives dealing with food safety, agricultural research, water quality, global change, strengthening 1890 Land Grant Institutions and beautifying America. These initiatives address major issues that are currently receiving widespread public attention related to the safety of our food supply, our long-term productivity and competitiveness, and the quality of our environment. We want to ensure that our food supply is as safe as it can be, that our farmers are productive and competitive in world markets, and that the environment is protected.

I would now like to address the funding for these initiatives as well as the funding for the traditional programs of the Department.

RESEARCH AND EDUCATION PROGRAMS

Agricultural producers are entering a new age where issues not traditionally associated with production agriculture are coming to the forefront. While producers continue to face insect, disease and other constraints on production, environmental and consumer issues increasingly have major implications for agriculture. Significant advances in the biological sciences place researchers in an exciting position to address these long-term and emerging issues with a greater probability of success. We cannot afford to miss the opportunity to invest in our future—our global competitiveness and environmental quality are at stake. The President's budget recognizes the need to do so through research and development.

As part of the President's program, we are proposing $100 million in competitive grants to fund the first year of a National Initiative for Research on Agriculture, Food and Environment. Based on the recommendation of a recent National Research Council report, entitled "Investing in Research: A Proposal to Strengthen the Agricultural, Food and Environmental System" the initiative includes a commitment for annual increases of $50 million, provided that funds are made available for competitively awarded grants.

An especially promising area is plant genome mapping—locating economically important genes to make rapid transfer of desirable traits a reality. A $15 million genome program, to be managed by ARS, is included in the Initiative. Armed with the genome information, scientists will have the tools to quickly transfer pest resistance, drought tolerance and other characteristics to address specific needs of farmers. It is this ability to solve applied farm level problems that is the real value of the initiative, and the genome example is only one of many that could be cited. I want to emphasize my strong support for this vital initiative, which I consider crucial to our competitive posture, and I would urge your support as well.

The land grant universities should be strong contenders for grants through the National Research Initiative, and there is a provision built into the proposal for strengthening grants for smaller, less developed institutions. At the same time, we are proposing increases in the basic Hatch and 1890's formulas to support a continued partnership with the land grant institutions. Our Federal laboratories also merit strong support given their critical role in providing the scientific basis for other programs and initiatives of the Department. Proposals for in-house programs will focus on water quality, global change, food safety and animal health. Increases are also proposed for important plant and animal germplasm programs which provide the pool of vital genetic resources in support of the entire agricultural research community.

In a recent speech, President Bush emphasized the need for a strong research program to understand the future impact of increasing greenhouse gas concentrations to provide a basis for weighing policy options. Certainly, global change has the potential to significantly change our landscape, including agriculture as we currently know it. In addition, agriculture has the potential to contribute to the forces of global change in ways not yet fully understood. With so much at stake, it is crucial that we provide sufficient investment in research in this area to support the policy-making process. USDA is a full partner in the President's global change research initiative which is being coordinated through the Committee on Earth Sciences. Our fiscal year 1991 budget for global change research totals $47 million, more than double the fiscal year 1990 level.

Additional funds are also proposed for food safety research to support our food safety initiative and ongoing inspection programs. We must be in a position to assure a safe food supply, and our ability to do so will rely on application of the best science at the producer level and on the ability of regulatory agencies to test for residues and contaminants. We see an important role for the Extension Service in the area of producer and consumer education on food safety, and we are proposing a new program in that area.

Our ability to perform cutting edge research will hinge on the availability of human resources and the advanced physical facilities demanded by modern research procedures. We are proposing targeted increases for competitive higher education programs for graduate training and curricula development and other institution strengthening programs. A program initiated in fiscal year 1990 with the cooperation of this committee to strengthen the capacity of the historically black 1890 institutions would be doubled to target development of expertise in underrepresented minorities. This is complementary to the President's broader program of education initiatives, especially those directed toward supporting the historically black colleges and universities. We believe the principles of cost-sharing and competitive awards are important to the success of these higher education programs. Congressional support for these principles is appreciated, and the prospect of obtaining matching funds for the 1890 Institutions' initiative this year provides the basis for our recommendation that matching be made a requirement in fiscal year 1991. We are also continuing our facility modernization efforts, with funding for major construction projects at four labs, including Beltsville, Maryland.

Before I leave the Research and Education area, I want to highlight a new Youth at Risk program which we propose in line with the President's initiatives in youth education, training and programs to curb drug abuse. We would provide funds and university-backed Extension expertise to assist prevention/intervention projects in targeted communities—those with high poverty rates, teenage pregnancy, drug use and other factors which put children at risk. There are some youth at risk Extension efforts already underway which look very promising. We believe that Extension plays a critical role in providing stable, research-based support to these programs and that their effort should be expanded on a national basis.

FOOD SAFETY

Food safety is of great concern to farmers and consumers. Recently, a number of highly publicized regulatory actions concerning pesticide use have raised questions about the safety of the nation's food supply. The data used to support claims that pesticides and food additives are unsafe overstates actual dietary risk. The claims are based on information which comes from the data used in the pesticide registration process administered by the Environmental Protection Agency. Those evaluations assume that farmers would use all of the approved pesticides at the maximum allowable amounts for the maximum number of approved applications. This theoretical risk far exceeds field conditions. The dilemma facing the Government is that it simply does not have adequate information to sufficiently validate actual occurrences of harmful pesticide residues on food at the consumer level.

The Department proposes, for the first time, to estimate statistically reliable residue exposure for the average person's diet. These data would also be used to examine selected food sources for vulnerable groups of the population such as the very young, the elderly, the poorly educated and low income people. The $25 million initiative included in our fiscal year 1991 budget request would "piggy-back" statistically based tests on to existing State pesticide residue testing programs. We would increase our data of on-farm pesticide use, compiled for water quality purposes. These data would be used to estimate the impacts of alternative pesticide policies, programs, and practices and to conduct additional research on the economics of food safety.

The President's Food Safety proposal, which was recently submitted to the Congress, would repeal the zero risk Delaney clause in the Federal Food, Drug and Cosmetic Act and replace it with a more rational negligible risk standard.

Residues which could only be detected if they existed in parts per thousand twenty years ago are now detected if they exist in parts per trillion. Therefore, zero tolerance is no longer a good guide for evaluating health risk.

We have a number of ongoing efforts in food safety. The residue testing program for meat and poultry has a 95 percent level of confidence that a residue in one percent of the product will be detected. Our research programs, which provide the scientific support for inspection and other regulatory programs are increased under our fiscal year 1991 budget proposals. The Extension Service provides information to help producers minimize pesticide applications through the use of Integrated Pest Management and other programs. To improve our food safety efforts, we propose to expand research and provide that the egg products inspection program include testing for residues. In addition, we are proposing that the 1990 Farm Bill provide that grains going to export markets be tested to determine whether aflatoxin exceeds levels approved for food use.

SOIL AND WATER CONSERVATION

The President, in his January address to the American Farm Bureau Federation in Orlando, Florida, stressed the importance of maintaining American agriculture's productivity without sacrificing environmental protection, especially in the area of water quality. The Congress responded favorably to our fiscal year 1990 water quality budget proposals, and we are well underway in implementing expanded research and technology transfer programs. We hope to address many of the more serious water quality problems through these efforts. We believe that this will encourage farmers and ranchers to voluntarily adopt management practices shown to have significant environmental benefits. I strongly favor a voluntary approach to this problem rather than the heavy and often counterproductive hand of Federal regulation. We need to assist farmers in this effort. In this connection, I recently announced the selection of 37 hydrologic units which will receive targeted education, technical and financial assistance to address identified agriculture related water quality problems. Eight demonstration projects have also been funded this year to show farmers and ranchers first hand how the most advanced management practices can improve water quality.

Obviously, an initiative of this magnitude requires that these water quality programs be carefully coordinated both within the Department and governmentwide. To assure that this coordination is effective, we have established a USDA Working Group on Water Quality as part of our policy coordination framework under the leadership of Deputy Secretary Parnell. Specific day-to-day leadership on water quality is provided by our Deputy Assistant Secretary for Science and Education, Dr. Harry Mussman. I am encouraged by the progress made so far in implementing the initiative, and we have made certain that the Environmental Protection Agency, the Geological Survey, and the Commerce Department are included as full participants in our research and education planning process.

We further recognize that an effective water quality program will require a sustained, long-term effort, and our fiscal year 1991 proposals reflect the need for additional research, data collection and technology transfer efforts. Success of the program will be measured by the level of adoption of best management practices by producers. And to assure this success, education and technical assistance programs will be available so that these improvements in production practices are applied in the field.

Work on implementing the conservation provisions of the Food Security Act of 1985 also has been progressing well and remains on schedule. Sufficient funding for Soil Conservation Service (SCS) technical assistance will ensure that this work continues and that the deadlines are met. SCS has completed its highly erodible land determinations, as well as the conservation planning required by the 1985 Act. About 30 percent of the planned measures have already been installed. The level of technical assistance requested for fiscal year 1991 will enable the SCS to continue the implementation of plans and to make any revisions to existing plans that may be required.

The USDA budget supports the President's commitment to encourage wetlands preservation and enhancement. As you know, wetland issues affect both our conservation programs and sales of inventory property owned by the Farmers Home Administration. In the conservation area, we will continue to implement the swampbuster provision of the 1985 Act by using SCS technical assistance funds for wetland determinations and inventories on those wetlands with a high potential for conversion to cropland. We hope to complete these inventories by the end of 1992. Another activity that benefits wetlands is the Water Bank Program, which is administered by the Agricultural Stabilization and Conservation Service (ASCS). We are proposing that the statutory authority for this program be broadened to enable the Department to offer program participants payment for permanent easements in addition to current 10-year contracts. In summary, we support the need to protect our wetlands while also recognizing the private property rights of our farmers.

The Food Security Act of 1985 also authorized the Conservation Reserve Program (CRP), which through nine signups has removed nearly 34 million acres of highly erodible cropland from production. The fiscal year 1991 budget request would allow up to 40 million acres to be enrolled in the reserve. In outlining proposals for the 1990 Farm Bill, we have recommended that the focus of the CRP be shifted to water quality and wetlands preservation. Even under current legislation, we have begun to direct the program towards these purposes.

For the first time in many years, we are proposing to fund the Agricultural Conservation Program (ACP). This program will provide cost-sharing for the Department's water quality activities as well as restore and protect basic land and water resources. We view this program as an integral part of our overall conservation effort.

The Department's budget also contains $175 million for the Forest Service to encourage tree planting on non-Federal lands as part of the President's "America the Beautiful" initiative. This initiative will help improve the quality of life in both urban and rural areas, reduce energy requirements to heat and cool buildings, address concerns about the buildup of atmospheric carbon dioxide, and demonstrate an American commitment to worldwide forest management. Cost share funds to carry out the initiative will be administered by ASCS, via a transfer from the Forest Service, to assure efficient program implementation. Finally, the initiative complements ongoing tree planting activities under the Department's existing conservation programs, which include the reforestation of Federal lands, the Forestry Incentives Program (FIP), and tree planting practices under ACP.

RURAL DEVELOPMENT

During the past year, the Department and the White House initiated efforts to examine the Federal role in rural development and determine what improvements could be made within existing resources. I created an internal USDA Task Force on Rural Revitalization, and the President established a Working Group on Rural Development, which I chair, within the Economic Policy Council. Both groups concluded that while agriculture is an important source of income for rural areas, these areas cannot remain totally dependent on agriculture and ensure economic growth. They must diversify their economic base. Non-farm jobs are essential if rural areas are to grow.

Both groups also concluded that while most of the existing Federal programs have been successful in meeting specific quality of life objectives, they have not added much to the capacity of rural areas to achieve economic growth. Moreover, these programs have not been administered with a sufficiently long term perspective.

The Economic Policy Council Working Group on Rural Development proposed the establishment of a President's Council on Rural Development and establishment of Rural Development Councils in each state to serve as a source of policy advice for diversifying and strengthening our rural economies.

The Department has also taken a number of steps to improve our approach to rural development problems. The 1991 budget requests funding for an Assistant Under Secretary position to be added to the staff of the Under Secretary for Small Community and Rural Development. The intent is to provide a long-term focus to rural development policymaking within the Department and to coordinate the Department's activities with other Departments, state and local governments and public interest groups. The Department will also establish a Department-level long range rural development planning process to link policy and program decisions.

Improving our performance does not require a dramatic shift in current programs or funding levels. Of greater need is a governmentwide commitment to improved program delivery and assistance.

We propose shifting a portion of the existing community loan programs from direct to guaranteed lending. In so doing, we will attract private capital and acquaint private lenders with the economic opportunities that exist in many rural areas, and thereby stimulate additional investment.

The fiscal year 1991 budget for the Farmers Home Administration (FmHA) community programs reflects a significant policy shift toward guaranteed lending. The budget for FmHA includes $300 million in direct and $50 million in guaranteed water and waste disposal loans; $100 million in water and waste disposal grants; $46 million in direct and $50 million in guaranteed community facility loans and $30 million in the Rural Development Loan Fund. Guaranteed loans will be used to assist those communities that require minimal Federal assistance to qualify for private credit. The budget proposes termination of the guaranteed business and industry loan program, since these needs can be well served by the Small Business Administration.

RURAL ELECTRIFICATION

In contrast to previous budget recommendations, we are proposing to continue the Rural Electrification Administration (REA). However, we are recommending much needed reforms that will reduce the amount of direct loan assistance and rely more on the private sector to provide financing for these projects. The budget includes $200 million in direct electric distribution loans and $1.1 billion in guaranteed loans for both electric distribution and power supply borrowers. For telephone borrowers, we recommend $125 million in direct loans and $200 million in loan guarantees. All telephone loans and guarantees would be made by the Rural Telephone Bank (RTB), which should be more efficient than the current split between REA programs and the RTB. We are proposing legislation to effect the necessary reforms in REA programs and to facilitate the shift to guarantees of private sector loans.

RURAL HOUSING

For rural housing, we propose to maintain and improve FmHA's existing programs to provide maximum flexibility for tailoring assistance to the individual needs of rural residents who lack decent, safe, and sanitary housing. Our proposal will provide assistance to about 66,500 units, approximately the same number provided by the fiscal year 1990 appropriations act. This is a major change from previous budget recommendations which would have terminated FmHA's existing programs in favor of a voucher program with only one-third the number of units.

For families who can be served through private sector financing, we propose that $594 million be made available for guaranteed single-family housing loans. To ensure that more low-income families are able to qualify for these loans, we propose to provide an interest subsidy. This subsidy would average five percent and would apply to half the amount of guaranteed loans that would be available.

The direct loan programs for both single-family housing and rental housing would be continued at levels of $609 million and $391 million, respectively, which compare to levels of $1.3 billion and $572 million for fiscal year 1990. These loans will be used to reach families who cannot be served through private sector financing. Borrowers' interest rates on these loans may be subsidized down to one percent. Further, $270 million in rental assistance payments will be used to provide an additional subsidy on FmHA financing rental housing so that very low-income families who receive rental assistance pay no more than 30 percent of their income for rent. In addition, we propose $190 million for rural housing vouchers to serve those very low-income families who reside in areas where there is an adequate supply of rental housing. Vouchers will allow recipients to choose their own housing, within reasonable limits, and make it affordable for them to rent.

AGRICULTURAL CREDIT PROGRAMS

One of the largest appropriations requests in this budget, over $6 billion, is to reimburse the Agricultural Credit Insurance Fund for its losses. The magnitude of this request is strong evidence of the problems FmHA has had in recent years with its farm loan portfolio. The fact is that when farmers went through troubled times in the late 1970's and early 1980's the FmHA responded with understandable compassion. Loans were made for the sole purpose of keeping farmers in business. By the mid-1980's, over 270,000 farmers were receiving special help from FmHA in the form of new loans and servicing actions on outstanding indebtedness. While this was a compassionate policy, it was also very costly. These costs have become clearer as we have proceeded with the actions mandated by Congress in the Agricultural Credit Act of 1987. Over 75,000 FmHA borrowers with long-term delinquencies have been notified of servicing options under this Act.

Our policy is to try to refocus FmHA back to its original mission of providing temporary credit for young and beginning farmers and those established farmers who suffer financial setbacks. We want to be compassionate but wise stewards of the public's money. Thus, we want to complete the job which was begun under the Agricultural Credit Act, and we want to continue the shift from direct FmHA lending to guarantees of private sector credit.

To be frank, we have not been as successful as we would have liked with guaranteed lending. While guaranteed lending has exceeded direct lending for the last three years, it has been less than half the authorized levels.

Not all states have fully participated in these programs. And, most importantly, many borrowers who could be shifted to guaranteed loans have continued to rely on direct loans.

Our fiscal year 1991 budget is designed to rectify this situation. It provides for $2.7 billion in guaranteed farm loans, more than double the amount used in fiscal year 1989. Direct lending would be reduced to about $560 million, compared to $1.0 billion used in fiscal year 1989 and $1.1 billion available in fiscal year 1990. To ensure that borrowers are able to qualify for guaranteed loans, we propose to initiate a new subsidy program to write-down the interest rate on up to $400 million of these loans by an average of 3 percent—enough to make them competitive with direct loans. This initiative can be carried out under existing legislation. Further, I will mention that our 1990 Farm Bill proposals include a recommendation to facilitate FmHA guaranteed lending by making these loans eligible for the Farmer Mac secondary market that is being established by the Federal Agricultural Mortgage Corporation, a Farm Credit System institution.

While we intend to continue encouraging guaranteed lending, we also plan to provide for better targeting and more supervision under our direct loan programs. Further, FmHA will continue to assist its 200,000 plus borrowers through a wide range of servicing options, including the restructuring provisions of the Agricultural Credit Act of 1987.

DISASTER ASSISTANCE

As I have said many times before, we cannot continue to provide both highly subsidized crop insurance and disaster payments. The combination has cost the American taxpayer an average of $1.1 billion annually since 1981. Yet both programs have major shortcomings. Administrative costs have been high, there have been inequities in the distribution of benefits, and producers have had to cope with the uncertainty of whether assistance would be available when needed.

The level of participation in the crop insurance program has not been sufficient to avoid *ad hoc* disaster payment legislation, even with a 30 percent Federal subsidy. And, of course *ad hoc* disaster assistance undermines the incentive to participate in crop insurance. We have given a great deal of consideration to how the program might be improved, including a thorough review of the recommendations made by the independent Federal Commission for the Improvement of the Crop Insurance Program. But we have found no way to increase participation significantly without also increasing taxpayers' costs. Therefore, we are proposing that the program be terminated, effective with the 1991 crop.

We are proposing to replace the crop insurance program with standing authority for disaster payments. This program would assist producers facing serious losses and would be compatible with supplemental private sector insurance. These payments would be made available to producers of crops in counties where county average crop yields fall below 65 percent of normal yields as estimated by the National Agricultural Statistics Service (NASS). Individual farmers in eligible counties would receive payments for any yield shortfalls below 60 percent of county normal yield. Payments would be based on 65 percent of average market price for three years and would be subject to certain limitations. All crops now covered by crop insurance, including hay and forage, would be included, which accounts for over 93 percent of total U.S. cropland.

The budget before this committee includes funding to continue the crop insurance program under current law. However, if the Congress passes legislation to implement the proposals I have outlined, we would then adjust our appropriations request accordingly.

FARM PRICE AND INCOME SUPPORT PROGRAMS

Commodity Credit Corporation (CCC) spending for commodity price and income supports rose to a record level of $25.8 billion in fiscal year 1986, but declined to $10.5 billion by fiscal year 1989. For fiscal year 1990, we project a further decline in CCC spending to $8.2 billion. The President fiscal year 1991 budget projects spending under these programs to increase to $10.2 billion, an increase of $2.1 billion over the 1990 level. This level of spending is based on the three assumptions: more normal crop production in 1990 and 1991, target prices which are frozen at the 1990 level, and legislated program savings of $1.5 billion.

We have not proposed specific changes for achieving budget savings but Chapter V of the President's budget summarizes some of the approaches we have in mind. Target prices and/or payment bases could be reduced; or payment limits could be tightened. All of these can affect deficiency payments. We prefer to work with the Congress in determining the most propitious way to achieve the necessary budget objectives within a sound policy framework.

Our top priority for price and income support programs is to reduce the rigidity of present programs. We have learned that it can be very costly to base program design upon assumptions which later fail to materialize. Our supply situation is such that we must meet any major shift in world demand out of current production rather than out of accumulated surpluses.

Therefore, farmers need the flexibility to respond to rapidly changing market conditions. Our 1990 Farm Bill proposal includes the concept of normal crop acreage for program crops. We would guarantee deficiency payments on permitted acres, regardless of which program crop is grown. This means producers will choose among crops based on market prices, not target prices.

EXPORT PROGRAMS

Agricultural trade reform will hopefully emanate from the Uruguay Round negotiations this year, but until that occurs, we must continue those export programs and activities which ensure our ability to compete in international markets. Our fiscal year 1991 proposals continue our commitment of recent years to bolster our competitiveness and expand markets for our agricultural products overseas. A total program level of $8.2 billion is requested for the Department's international programs and activities, an increase of $276 million over the 1990 level.

The Export Enhancement Program (EEP) is among the most important of our export activities. The EEP has allowed us to challenge those competitor countries that use trade-distorting subsidies, while contributing to our strategy for achieving Uruguay Round reform. The past two years, Congress has imposed an annual limitation on the value of bonuses that can be awarded under the program. Because this action is counterproductive to our trade negotiating strategy, we strongly urge that a limitation not be imposed again this year when the Uruguay Round negotiations are in their most critical stage.

Our export credit guarantee programs have also contributed significantly to recent improvements in our agricultural export performance. Sales registered under the CCC export credit guarantee programs have increased 80 percent over the past two years. During fiscal year 1991, we plan to make available $5.5 billion of CCC export credit guarantees, a continuation of this year's level.

In addition to providing valuable commodity assistance and promoting economic development, the Public Law 480 program contributes to the Department's market development efforts. The budget requests a total program level for Public Law 480 of just under $1.5 billion for fiscal year 1991. This is expected to provide for total commodity shipments of 6.4 million metric tons, an increase of approximately 500,000 tons above this year's estimated level.

During 1991, we will also continue our commitment to long-term market development activities through both the Foreign Market Development Cooperator and Targeted Export Assistance programs administered by the Foreign Agricultural Service. These programs support overseas market promotion activities carried out in conjunction with nonprofit trade and producer associations, as well as U.S. private firms. The fiscal year 1991 budget provides for a continuation of these activities at this year's levels.

FOOD ASSISTANCE PROGRAMS

With our fiscal year 1991 budget proposal, this Administration continues its commitment to fund programs for the needy. We request an increase of $600 million in program level for the domestic food assistance programs, plus indefinite budget authority for food stamps. Part of this proposal is the reauthorization of each program that would otherwise expire, including the Food Stamp Program, the Food Distribution Program on Indian Reservations, the Commodity Supplemental Food Program, and the Temporary Emergency Food Assistance Program (TEFAP). Overall, we are requesting $23.9 billion for the food assistance programs in fiscal year 1991, which is over half of the appropriations request for all USDA programs.

The Food Stamp Program is the foundation of our national nutrition assistance to low-income Americans. The committee will note some changes in the structure of our appropriations request for the program. Because participation in recent months has increased faster than we would expect based on historical experience, it is difficult to predict total program costs this early in the year with as much precision as we would like. Our estimate for fiscal year 1990 is higher now than when the fiscal year 1991 budget was prepared. Our general expectation is that these higher than anticipated participation levels will persist. Since average benefits have grown, even relatively small percentage changes in participation can have substantial consequences.

For this reason, the budget includes a request for "such sums as may be necessary" to finance the program for the remainder of this fiscal year. For 1991, our request of $15.9 billion includes $500 million in budget authority only to help account for this uncertainty. This is our way of trying to assure that food stamp benefits for needy people are not disrupted by a shortage of funds.

In carrying out the Food Stamp Program, we are committed to working with Congress, the Department of Health and Human Services, the White House Low Income Opportunity Board, the states, and others to better coordinate the program with other social welfare programs. Further, we will work to increase conformity among these programs and to simplify administration.

Our proposals for food stamps also provide for demonstration grants to reach out to homeless people. Most are eligible for food stamps, yet few participate. We believe that innovative activities will increase their participation.

We also believe that the needy are best served by strong programs with equally strong accountability. It would be a disservice to those in need to allow program abuses to undermine the broad public support these programs now enjoy. We will continue to work with all concerned to develop reasonable, effective measures to protect each food assistance program against abuse. This includes greater use of electronic benefit transfer systems in lieu of food coupons, stronger store monitoring procedures, and tougher penalties for abuse in the Food Stamp Program. And it includes efforts to assess and solve program integrity problems in the Child Nutrition Programs, the Special Supplemental Food Program for Women, Infants and Children (WIC) and other programs.

The President's budget not only requests reauthorization of TEFAP, it reauthorizes the purchase of commodities to supplement the donation of surplus commodities, and it includes funds for intra-State storage and distribution expenses. TEFAP helps those who choose not to receive food stamps, as well as food stamp and other food assistance program recipients who seek additional help.

The President's budget requests several legislative changes to the Child Nutrition Programs. Subsidies would be increased in the School Lunch Program such that the maximum price of reduced price lunches would drop from $0.40 to $0.20. Also, school lunch subsidies for children from families with incomes greater than 350 percent of poverty, i.e., $42,350 for a family of 4, would be ended.

"Free meal" subsidies for the non-needy in family day care homes would be reduced and made comparable to the subsidies provided for meals served in child care centers. This eliminates the current inequity of free meal subsidies for the non-needy in family day care settings, while similarly situated children in centers receive meal subsidies at the lower, paid meal rate. With this proposal, the non-needy in both child care centers and home day care settings would pay a share of the cost of their meals.

While our request includes some belt tightening for the non-needy, this is the highest request in history for food programs. It will allow us to continue to work in partnership with State and local governments, as well as with volunteers, to magnify all our efforts to help the needy.

We have also requested an increase for the Human Nutrition Information Service so that it can develop information and data on pesticide residues in consumer food products as part of the Department's food safety initiative, and continue its traditional role in national nutrition monitoring and nutrition education.

MARKETING AND INSPECTION PROGRAMS

As you know, many marketing and inspection programs provide direct benefits to the private sector and are funded through user fees. This budget includes legislative proposals to charge for the costs of developing commodity quality standards. The budget also proposes that Federal market orders be assessed for the costs of national administration and market analysis.

In contrast to previous years, this budget retains the small marketing programs and agencies that provide assistance to developing markets and promote fair and open competition.

The Animal and Plant Health Inspection Service is responsible for protecting U.S. agriculture from diseases and pests. The Agricultural Quarantine Inspection Program is the Nation's frontline defense against the introduction of dangerous agricultural pests and diseases from other countries. The budget proposes to move the financing of this program to a user-fee basis. International travelers should pay a reasonable fee for those activities that are needed to safeguard agriculture from the risks caused by travel to foreign countries.

The Brucellosis program will be accelerated in order for all states to be classified as free of this disease in 8–10 years. The Boll Weevil, Medfly, Biocontrol, Animal Disease Detection, Animal Damage Control, Animal Welfare and National Poultry Improvement Programs are among a number of important plant pest and animal disease control programs that we are requesting funding for in the budget.

We have also recently transferred $21.8 million of CCC funds to APHIS because of serious threats to agriculture caused by outbreaks of the Mediterranean and Oriental Fruit Flies in California and the increasing spread of Salmonella enteritidis in the poultry industry. We are also requesting funds to complete construction of the Wildlife Research Center in Colorado, to begin construction of the National Germplasm Quarantine Center at Beltsville, and to improve the Plum Island Disease Center in New York.

ECONOMICS AND STATISTICS

Sound, well directed programs for the collection of agricultural statistics and economic research and analysis will be essential to meet the challenges of the new decade. These include efforts to enhance the efficiency and competitiveness of agriculture and to address increasingly urgent food safety, environmental and other concerns. Production, marketing and investment decisions of our producers and agricultural businesses need to be based on reliable economic information and intelligence. These needs will grow as we strive to make agricultural production increasingly sensitive to market forces. The Department's economics and statistics programs also provide an important part of the foundation for well informed decisionmaking in the development of public policy. Increased funding to strengthen our traditional work in this area would constitute a useful investment in our view. We are also proposing an expansion of our data effort in the important area of farm labor. In addition, we are proposing a major thrust to expand agricultural chemical use data collection and analysis to support our food safety initiative as well as to strengthen our information base for addressing water quality and pesticide regulation issues. This new thrust would help fill a major gap in the government's currently available information for addressing these urgent issues.

DEPARTMENTAL ADMINISTRATION

The proposed budget provides funding to strengthen management oversight of the Department. Vigorous efforts for improvement of internal financial controls and for timely resolution of audits will continue. Resources are requested for additional audits and investigative activities. Resources are also requested to provide additional legal services to enhance environmental program review and decisionmaking. Additional funding is proposed to continue to allow more rapid clean-up of hazardous wastes at USDA facilities is also proposed. The Department's programs for minorities will be expanded to increase the number of minority employees and to promote rural development through the efforts of minority businesses.

It is my intention to work closely and cooperatively with Congress to address the budgetary and legislative challenges we face. I believe strongly that we can work together effectively, and by doing so, significantly help American agriculture.

That concludes my statement, Mr. Chairman. I would be happy to answer any questions you and the other members of the committee may have.

REMARKS OF SENATOR KERREY

Senator **Burdick**. The Senator from Iowa.

Senator **Grassley**. Could I ask if you could go to him and then come back to me because I am not quite ready yet. I hate to turn down an opportunity, but I am just not quite ready. Would you, please.

Senator **Burdick**. The Senator from Nebraska.

Senator **Kerrey**. Well, Mr. Secretary, let me in fact commend you. I think you have accomplished the objective of putting together a credible budget, and I think that makes it an awful lot easier for the subcommittee to proceed. I appreciate how easy it would have been to yield to the temptation of again zeroing out REA or the ACP Program. That is a very important program right now. As you know, it ties into water quality and soil conservation efforts, and funding for the ACP Program is very much appreciated by me and I am sure by the many people out there who will be using it.

I feel the same way about the Agricultural Productivity Act. Last year it was zeroed out, and I appreciate your funding that and, in fact, even providing a modest increase. I appreciate your funding request for WIC as well, though it is frozen at current levels.

As you may know, Senator Domenici and Senator Sasser presented to the full Agriculture Committee yesterday the Mickey Leland Anti-Hunger Act with a pretty healthy increase in WIC over the next 5 years.

However, I am not sure we are going to have the money to fully fund it. My guess is that that bill will pass and provide you with some additional authority for that program.

I am grateful as well that you continue the Federal State Marketing Improvement Program. It is a very small effort, but in fact one that is working out there in the States. I had some experience with it as Governor and again, it would have been easy to just simply eliminate it.

I also strongly commend you for putting $25 million in there to initiate an effort to determine the actual level of pesticide residues in food. I think anybody who has spent any time at all looking at the food safety issue knows how important it is to get that determination made. Otherwise it is going to be virtually impossible for us to regulate responsibly in this area. This should help us in making regulatory determinations.

As you have pointed out in previous testimony, there is a great demand coming from consumers to begin to regulate before we have an adequate amount of information.

Mr. Chairman, you turned it over to me, and I do not know if you are giving me permission to ask questions or if you are simply asking me to make an opening statement at this time.

Senator **Burdick**. It is an opening statement.

Senator **Kerrey**. So, I will end then, without asking questions and hold off later.

There is, it seems to me, plenty of room as always for us to have some disagreements over the detail of the budget. I think you will find in some of the questions that I ask that I have some areas where I would like to see a little additional emphasis.

Senator **Burdick**. Do you have an opening statement, now?

Senator **Grassley**. No; but I am ready for questions.

Senator **Burdick**. Well, let me start.

REA FUNDING

I would like to note at the outset some disappointment with the budget in terms of the REA programs. I was under the impression from things that you have said, that this budget would be different from the budgets under the Reagan administration. In fact, in your statement you say, "In contrast to your previous budget recommendations, we are proposing to continue the Rural Electrification Administration." That, of course, is good news.

However, this budget is really no different than previous budgets. You change the program so drastically that it would be unworkable, unusable by borrowers and effectively defunct.

This budget is virtually no different than the Reagan final budget last year. Congress has never gone along with it, and we are not going to go along with it this year. You have got a huge backlog of eligible loans to fund. You do not use the authority given to you to take care of this backlog. And you propose guarantees that are too low of private sector loans for which the borrowers could not qualify anyway.

We give you a minimum and a maximum for REA loans. But you consistently refuse to go above the minimum. Why do you not use your authority to fund the eligible applications?

I do not have any further questions for you on this subject. But I suggest you take another look at it, because we are not going to turn out the lights and hang up the telephone in rural America.

Now you can answer your questions.

Secretary **Yeutter**. If I may, Mr. Chairman, I would like to just do a quick response to that.

Senator **Burdick**. Surely.

Secretary **Yeutter**. We would love to do more in the REA area if we could. But the principal rationale of shifting from direct loans into guaranteed loans is that we have a lot more outlays, of course, with direct loans. And that causes a pinch in the budget. Something has to give somewhere in the process. We just cannot afford to do everything, Mr. Chairman. I wish we could. But we cannot.

Senator **Burdick**. I wish you could, too.

Secretary **Yeutter**. Thank you, Mr. Chairman.

Senator **Burdick**. The Senator from Nebraska.

Senator **Kerrey**. I will be brief.

Mr. Secretary, I have three questions. And let us get perhaps to the most difficult one. I am going to fight on this committee for a fairly major increase for the Agricultural Productivity Act. And if need be, I will look for some of the money from other sources, such as the $175 million that is in the America the Beautiful tree planting program or even the water quality program. It seems to me much of the effort that is underway in the sustainable agriculture program is in the area of water quality.

LOW INPUT SUSTAINABLE AGRICULTURE [LISA]

I am very much aware as I am sure you are of the dispute, let us say, over LISA in particular and over the misunderstanding about

LISA and what it means. I just had nine hearings in Nebraska over the recess. I had people come up to me that are almost completely organic farmers and say that they disliked LISA, because they heard in the word LISA, increased regulation, which they were not terribly excited about.

Why rather than launching perhaps some new programs would it not make more sense particularly given the back log that we have right now with spending projects for us to make a dramatic increase in funding for the Agricultural Productivity Act, even if at the expense of water quality initiatives or even of planting some of those trees that the President wants us to plant?

Secretary YEUTTER. Well, I certainly do not disagree at all, Mr. Kerrey with the idea that we need to get a lot more research activity and field trials and other efforts in this area. I do not really believe there is any disagreement among thinking agriculturalists in that area at all. It is just a question of how much we can afford to spend at a given point in time, and where in that research spectrum among hundreds or thousands of alternatives we ought to put our emphasis.

I do not have any difficulty with LISA as a concept. Unfortunately, it has become a bit of a buzz word, a little bit like decoupling, Senator Kerrey, in which people misinterpret what it is really all about, or people form their own judgments about what the term really means. It means different things to different people.

So, rather than get caught up in some emotional definition, I would rather just say, we ought to do what is necessary to evaluate levels of chemical usage and fertilizer usage in this country, so that we can provide some counsel to farmers in Nebraska and elsewhere as to whether it really is economically feasible to reduce levels.

One element of the name LISA that troubles me a little bit is where it says low input sustainable agriculture. What we want is the right input. I do not know whether that is lower or higher than what it is today. Presumably it would be lower in many cases. But what we need to determine is what is the proper rate of input of chemicals and fertilizers that farmers should use, and that is going to be the significant effort.

But whether you call it LISA or call it something else, I do not think is important.

Senator KERREY. Should we call it RISA? I will accept that.

Secretary YEUTTER. OK. But, we do need to get it done. Just to give an example that came out of our home State of Nebraska, Senator Kerrey, I was reading a farm magazine article just a couple of days ago quoting one farmer who was among the producers with some of the highest yields of corn in the country, and his utilization of both fertilizers and chemicals is less than what most people would expect.

And his comment about the reason it is lower than most people would expect is because he very, very carefully determines timing, and precisely which fertilizers or chemicals he needs. And by controlling the timing and the precision of applications, he can reduce his levels appreciably below what most people would use to achieve those kinds of yields.

Well, we just need to learn a lot more about that.

Senator **Kerrey**. I have heard other people struggling to come up with a different name for it as well, because they are aware of the provocation that occurs when the term LISA is used.

But I just feel very strongly that it is a sound and well-established program, one that does not require brick and mortar, one that just ties in with what producers themselves are already doing. It is consistent with integrated pest management and irrigation management and all the other things that I assume this individual had to do that you cited in the article.

So I am going to argue for a fairly hefty increase in that account, because one of the things I think we have to do is expand that toe hold under whatever name in order to show producers this is essentially a user-friendly system.

Secretary **Yeutter**. Please recognize, Senator Kerrey, that these kinds of efforts are scattered in a wide variety of places in the Department, not just in that one particular program.

Senator **Kerrey**. Yes; I do recognize that.

Let me ask you one other question, and then I will wait for the five bells to ring. And then I guess we are going to have to go vote, or I will have to go vote.

FUNDING CROP INSURANCE/DISASTERS

Where do you propose we get the money for either a crop insurance or a disaster program?

Secretary **Yeutter**. It is not going to come easily, Senator Kerrey. The expectation on permanent disaster legislation is that it would likely be fiscally neutral. In other words, in a disaster situation we would very likely have sufficient savings in deficiency payments to offset any expenditures that might be made under a permanent disaster payment program.

With crop insurance, we have a different problem depending upon how the crop insurance program is organized. But our present budget would not fund crop insurance, except in a very limited way.

Senator **Kerrey**. Is the administration position that they prefer crop insurance to annual disaster programs?

Secretary **Yeutter**. No; the administration's position is that we would be happy to have either one, whichever will perform the yield-risk job most effectively.

At the moment, we do not see a way without breaching budgetary constraints significantly to do that job through crop insurance. Or putting it in another way, we believe that the only way to do it is through a very major overhaul of crop insurance far beyond anything that has been visualized thus far.

Therefore, we came to the conclusion that until and unless we and you in the Congress can come up with a better way to change crop insurance very substantially, we have no alternative but to shift to permanent disaster legislation.

EXPORT LOAN GUARANTEES

Senator **Kerrey**. I would love to discuss that with you a bit more. I will also ask you a question that does not really require an answer. I recently asked Secretary Crowder when he was before the committee about an apparent cap on the export loan guarantee authority.

It appears in the administration's budget that there is a cap on the program. I had asked Secretary Crowder to give me an answer as to whether or not that was in fact the administration's position, and I have not received an answer.

Secretary **Yeutter**. Steve Dewhurst may correct me if I am wrong, but my understanding is that the administration's overall budget proposal does include a proposed cap. Apparently this is not a new proposal; it has been submitted in prior years as well to the Congress.

Senator **Kerrey**. Secretary Crowder's testimony before the committee indicated that that was not the case. In fact he was concerned that that not occur, because it was important to keep it in place for the GATT negotiations.

So, if you could just ask Secretary Crowder to give me an answer, or perhaps you could as well, although it is not important that I get the answer right now, Mr. Secretary. If I could just get an explanation as to why that cap was proposed in the midst of the GATT negotiations, which seems to me to weaken our position during the negotiations.

Thank you. Senator Burdick, we will be right back.

[A brief recess was taken.]

Senator **Grassley** [presiding]. I have the permission of staff to start out in Senator Burdick's absence, so I will proceed.

FARM INCOME SUPPORT

I have some questions in about two different areas. You mentioned several options for meeting the President's proposed $1.5 billion cut in the agriculture budget. I am, however, concerned about the impact of further target price cuts or changes to payment bases which would hit small farmers particularly hard.

And I have supported tightening current payment limits. But unfortunately we have had a very difficult time, even though we have had close votes in the Senate—getting a majority—in that area.

So what other options has the Department considered to meet the proposed cuts? And I am not asking for specific recommendations because you gave us a broad guideline. So what might be included in those broad guidelines?

Before you answer that, please, is the $1.5 billion supposed to come out of the category that we call target price support? Or can it come out of a broad range of the entire $55 billion that is in the agriculture budget?

Secretary **Yeutter**. Well, in the administration's presentation, Senator Grassley, we called for the reduction from the baseline to come out of the farm income support category. As I pointed out earlier, it really is not a $1.5 billion reduction from present levels; it is only from the baseline. It is actually a $2 billion increase from present levels.

But if you are comparing the reduction to the baseline, it would be a $1.5 billion reduction. Our proposal is that those savings come from the farm income support area.

Senator GRASSLEY. How big of a pot is that, what you call income support area?

Secretary YEUTTER. Well, that is the entire pot. That is, the reduction would be from the current law baseline of $11.7 billion.

Senator GRASSLEY. That answered my question.

Secretary YEUTTER. Our number in the President's budget is $10.2 billion. In theory, of course, in the appropriations process, Senator Grassley, the $1.5 billion reduction could come from anywhere. Obviously, we have got to meet the overall budget targets for the Department. So there is nothing that would preclude this committee or the Congress from taking those savings elsewhere. But our proposal would call for it to come from this specific area.

Now, as to the rest of your question, which is, what are the options, you have articulated the variables with the possible exception of the impact that set-aside programs would have.

So in achieving the spending discipline that is required here, that is reaching the $10.2 billion goal, one has to do that through some combination of those four variables. That is, the target price level, the crop acreage base on which target price payments or deficiency payments are made, the payment limits if any that would be applied to on an individual farmer basis and then the impact that acreage set-aside levels would have on that decision.

What we need to do in the legislative process within the agriculture committees is to discuss and debate those four variables and how they should best be combined in each of the program crop areas. That is, what kind of a feed grains program should we have, what should our target price levels be on feed grains, how big should the payment base be, what should we do in the way of determining acreage set-asides.

Our proposal in that area, Senator Grassley, would be to tie acreage reduction calculations to stock's use ratios at the end of the year, and also to look at what, if anything, we should do about payment limits. The same process would apply to the wheat program, to rice, to cotton, whatever we might have in program crops.

Senator GRASSLEY. Does payment limit basically mean further refining the $50,000 limit?

Secretary YEUTTER. Yes.

MEAT SUPPLY

Senator GRASSLEY. You mentioned in your testimony you expected an increase in output for livestock, poultry, and record meat supplies. Do you see that reducing prices to farmers, or do you see increased demand keeping prices up, considering an increase in supply?

Secretary YEUTTER. Those markets are very strong at the moment, Senator Grassley. They have been among the big winners in agriculture over the last several months. The prices have been so strong that eventually some downward reduction is almost inevitable. That is, they provide a stimulus to additional production which could be expected to offset demand growth at some point.

We are beginning to see that now with cattle feeding placements, and also with increases in dairy supplies. So prices undoubtedly are going to weaken in many of the areas where we have seen such tremendous strength here in recent months.

The effect on incomes, of course, is another matter because it is price times quantity to determine income. Quantities are going to be up, prices are going to be down. Overall, I would say our estimate would be that we have slightly less income in the livestock and dairy sector in 1990 than in 1989, but still very healthy incomes in that entire sector.

Senator **GRASSLEY**. I would like to ask you if there might be a drop in livestock prices, but you did not say that?

Secretary **YEUTTER**. That is probable in the poultry and dairy area in 1990, and perhaps, later in beef and other livestock.

LIVESTOCK PRODUCT EXPORTS

Senator **GRASSLEY**. If there were what I call export enhancement for value-added agricultural products, what steps could the Department take to improve livestock product exports and, specifically in that area? Specifically, you are directed through the Food Security Act, to have 15 percent of export enhancement for livestock.

Have you met that mandate?

Secretary **YEUTTER**. I really cannot tell you, Senator **GRASSLEY**. We will have to determine that and respond to your question.

[The information follows:]

The Department, through the Foreign Agricultural Service, supports the cooperator market development program and the Targeted Export Assistance (TEA) program. Under both of these programs we are working with the livestock products industries to promote exports, develop overseas markets and combat and offset unfair foreign trade practices. These programs also allow us to support research by these industries aimed at learning more about the markets they are already active in, identifying potential markets such as those in Eastern Europe, identifying new market niches in established markets such as special meat cuts in Japan and new ways of marketing existing products in existing markets such as chilled beef and pork to Japan instead of frozen.

The organizations and industries supported under these programs include the U.S. Meat Export Federation, the USA Poultry and Egg Export Council, the Alaska Seafood Marketing Institute, the National Dairy Promotion and Research Board, the American Embryo Transfer Association, American Sheep Industry Association, Leather Industries of America, the Mohair Council of America, the U.S. Hides, Skins and Leather Association, the National Association of Animal Breeders, the National Renderers Association and the U.S. Mink Export Development Council. So it is clear that we are promoting the export of the full range of livestock products from meat and poultry to semen and embryos to hides and furs to dairy products.

Activities by these organizations are being undertaken in at least 70 countries around the world. The total amount of financial support provided to these industries for overseas market development and promotion is approximately $26 million in FY 1990.

Regarding your question on the use of the EEP, section 1128 of the Food Security Act of 1985 states that the Secretary "shall seek to expend annually" at least 15 percent of EEP funds to promote the export sales of poultry, beef or pork meat and meat products. Last November, the USDA published in the Federal Register criteria (trade policy effect, export effect, effects on nonsubsidizers, and subsidy requirements) that are to be considered together to result in the selection of commodities and countries for EEP sales opportunities which best meet the program's objectives. These guidelines give the USDA the discretion to use EEP funds to promote the products that it judges best meet the EEP's objectives consistent with the published criteria. To this end, since 1986, USDA has approved EEP funds (bonuses) of about $107 million for poultry meat and $11 million for table eggs. No EEP funding has been approved for livestock products because they have not met the criteria noted above.

Senator GRASSLEY. OK. Could you answer the first question of whether or not there would be a role for the Agriculture Department in improving livestock product exports?

Secretary YEUTTER. It could be done not only in livestock, Senator Grassley, but in any other value-added product category, if that were our objective and if that were the will of the Congress.

You and I are both supporters of developing value-added markets internationally. That has been one of the shortcomings of American export programs through the years. We have sold too much in the way of raw materials, too little in the way of value-added products.

The more we can sell in the latter category, the more jobs we create in Iowa and elsewhere in the food-processing sector.

The question is how best we go about developing those markets. Our Foreign Agricultural Service has carried out a variety of promotional efforts in this regard. The TEA program that is continued in the budget is often used for value-added products.

EXPORT ENHANCEMENT

Traditionally, there has been less use of the Export Enhancement Program for value-added products. That could be accelerated, to the degree our competitors use export subsidies to move value-added products of their own.

If they do not use subsidies, then we do not have a rationale for using the EEP Program because it is intended to offset the unfair export subsidies of other nations.

But to the degree the European Community uses export subsidies on meat products, for example, and they do that sometimes, or other value-added products, then we could certainly use the EEP Program to counter those.

It requires commodity certificates for bonuses. It becomes a question of whether we have adequate EEP resources to do that. As you know, the Congress has cut back our EEP program level some the last 2 years, well below what we had proposed.

So we would appreciate having additional resources there. Then we could do more for value-added products and other products.

By the way, we consider the issuance of CCC certificates as EEP bonuses to have a limited impact because the EEP Program is likely to be budget neutral.

Senator GRASSLEY. I think I would be looking long term for some program for promotion of value-added agricultural products that would be GATT neutral or not a violation of GATT in any way. I assume that even though we are involved with this as the European Community is, what we are doing now probably is a violation of GATT.

Secretary YEUTTER. Well, it is an area in which we hope to achieve discipline in the Uruguay Round. So you are right, if we want to avoid a potential GATT challenge in the future, it would be better to go to some kind of marketing promotion program, either the Market Development Cooperator Program, the TEA Program or something of that nature.

Senator GRASSLEY. I will have to wait for a definite response because you could not answer on the 15 percent. My suspicion is that we are not meeting the mandate. I do not say that critically, but considering the fact that we are getting our wheat stocks reduced, would you have any plans of concentrating on moving other bulk commodities or processed products within the appropriation that we have now?

Secretary **Yeutter**. We will certainly use the EEP as is necessary to meet our subsidized competition abroad. It is very difficult to appraise what our actual needs may be because it depends a lot on the conduct of our trading partners.

And if the Community, for example, begins to accelerate its own subsidization efforts, we will need to counter those. One reason I have argued that we ought not to cap the EEP program level is that we need some flexibility to respond when necessary to that kind of subsidized competition abroad.

DROUGHT ASSISTANCE

Senator **Grassley**. My last point would be in regard to drought and funds for those funds. We appreciated the assistance that you provided us last year in helping mitigate the long-term effect of the drought.

The additional loan and grant funds you provided helped a number of Iowans hook into the rural water systems. The cuts in the Farmers Home loan and grant funds proposed for this year are inconsistent with the need that still exists there. There are still many people without water or with shallow aquifers that pose serious health threats.

The Department is putting an emphasis upon ground water quality protection and education and my question to you: Should the Farmers Home Administration be involved in this initiative by way of providing financial assistance?

And before you answer that, since this is my last question, this may be considered a little bit tongue-in-cheek, and it is, but also just in a way of being helpful to you, I would like to provide for you as well as for the record, Mr. Chairman, a report from the Des Moines Register, December 29, 1989, and then February 16, 1990, so you will have last year's total picture and this year's partial picture that most sections of my State are way behind normal rainfall.

So maybe, and I know you were joking when you said that farmers think there is a drought if it has not rained yesterday, and I accept that as what you said, but it did not go over quite so well in Iowa, and I would like to leave that for your information.

Now could you answer my question about the financial assistance?

Secretary **Yeutter**. Well, that was a good-natured banter as you know between myself and some of your colleagues as we were participating in a session in Kansas. It was not intended to be a serious evaluation of your rainfall situation in Iowa.

I have discovered that humor in this business becomes dangerous because it is not printed that way when it reaches the newspapers. But I hope that there are a few folks in Iowa who still appreciate the fact that we were serious last year when we dealt with this issue.

And subsequent to my visit to Iowa where you accompanied me, and in fact, a trip that you organized, Senator Grassley, we responded very vigorously and aggressively to your very severe ground water challenges. In fact, we transferred a good bit of money that had been earmarked for other States into Iowa to try to respond to the crisis situation that you had.

We will obviously do the best we possibly can in the coming fiscal year as well, within some rather severe budget constraints. As you indicate, we may have less money available next year than this year unless we do some additional juggling of budget priorities in the appropriations process.

But whatever those numbers turn out to be, we will try to be as helpful as we can because you do have severe problems in Iowa. Regrettably, some other States have severe problems as well, so those priority determinations do not come easily.

Senator **GRASSLEY**. Does that answer also apply then to the emphasis upon ground water quality that we are going to be dealing with?

Secretary **YEUTTER**. Yes; that certainly reflects our interest in ground water quality as a national problem. And as you know from my earlier comments, we have boosted the budget in that area rather significantly.

Senator **GRASSLEY**. Thank you. Thank you, Mr. Chairman.

Senator **BURDICK** [presiding]. Senator Kasten.

Senator **KASTEN**. Mr. Chairman, thank you. Mr. Secretary, welcome, and congratulations on the tremendous job you are doing. We all appreciate the work you are doing and want to do everything we can to help and support you.

I also want to just say thank you or express my appreciation for the one page on dairy marketing orders, which was included in the administration's proposal. I think it does review the problems of Midwest dairy farmers in the form of class I differentials, multiple basing points, reconstituted milk, and the whole milk market order system.

As you state, the need for reform is supported by a 1988 Economic Research Service study and a 1988 General Accounting Office.

The current system consists of trade barriers at their worst and flies in the face of a market-oriented approach.

What I need to know, Mr. Secretary, is whether you are prepared today to be specific about the actions that you are prepared to take through existing administrative and rulemaking procedures, to begin this process of deregulation and to tear down some of the barriers that we have.

It seems clear to me that not only in this country, but all over the world, we are seeing people developing market-oriented kinds of approaches without these kinds of artificial barriers.

MILK MARKETING BARRIERS

We have got artificial barriers right now with regard to milk and what can we do? Specifically, what are you prepared to do through existing administrative rulemaking procedures?

Secretary YEUTTER. It is a legitimate question, Senator Kasten, and one to which I have given a great deal of thought in recent weeks.

As you may recall, those market orders were under my wing in my earlier days in the Department of Agriculture, almost 20 years back. So I am still reasonably familiar with them, although a bit obsolete on the background.

But I have begun to devote some attention to that question because it has been raised by you and a number of your other colleagues in the Congress, both on the Senate and the House sides, and not only those of you in the Midwest, but elsewhere in the country as well.

I have had some discussions already with the key people in the Department on that subject, some discussion with industry people. I am not prepared to give you a definitive answer today, because I have some more sessions with some industry folks scheduled in the next few days.

I want to get their input. These are some of the top folks in the industry. I want to get their input before I make a final decision. I can tell you, Senator Kasten, that I plan to make a decision on that soon, within days, because it is timely.

We either need to confront these issues through the administrative process or confront them legislatively. And if I am going to move forward with the administrative process, that may put the legislative process on hold.

If on the other hand, I decide for whatever reason that the administrative process is not the right route to go, you need to know that so you can proceed legislatively, particularly with the farm bill debates now underway.

So I recognize the timeliness of your question, and you will get an answer very soon.

Senator KASTEN. I appreciate that, and I understand that these are not simple issues. I do not believe that the administrative process and the legislative process are necessarily mutually exclusive.

It could be that you are able to take a step, with reconstituted milk for example, and we are able to take a step or a part of a step in another direction as we try to work with some of the other barriers.

But the idea about how far away from Eau Claire, WI, you are as the way that we price the product is just completely outmoded and I think that everyone in the industry understands that.

It is a matter of working our way out of this situation, and obviously it is an area in which I look forward to working with you.

Secretary YEUTTER. I would like to make one followup comment to that, because you raised a good point about the two actions not being mutually exclusive. You are correct, Senator Kasten, they are not mutually exclusive.

You could proceed with action legislatively while we have administrative action underway. However, these are extremely complicated questions so it is often difficult to deal with them legislatively simply because of their immense complexity. However, it certainly would not be impossible for you to carve out particular niches to deal with legislatively.

But it does get to be a very complicated business.

Senator **Kasten**. Absolutely.

SWAMPBUSTER IMPLEMENTATION AND ENFORCEMENT

Mr. Secretary, last summer we exchanged views on the effective implementation and enforcement of swampbuster.

Subsequently, the Department submitted its recommendations for the 1990 farm bill and I noted with interest that the administration's proposal does not include any recommendation for the wetlands conservation provisions, specifically swampbuster.

Does that mean that the program is working to your satisfaction?

Secretary **Yeutter**. I would say, Senator Kasten, that it probably is not working to anybody's full satisfaction. We have had a lot of complaints about swampbuster from all sources, from farmers, from folks who have a strong environmental interest in the way these lands are handled and from Members of Congress.

So we have a spectrum of views on swampbuster, and for that reason, it seems to me that we ought to have additional debate on the direction that we should provide for that program in the future.

I am satisfied, Senator Kasten, that our folks are trying to implement that law in a reasonable and rational fashion. There has been some suggestion that such is not the case and that our personnel have not been sufficiently diligent.

I do not agree with that assessment. But I do believe that in some cases they have almost an impossible situation in defining the areas which are to be subjected to action and in laying out a good solid basis for doing so.

Or, putting it another way, it seems to me that we ought to be able to figure out a little better way to run the store than we have thus far.

I suspect that some of that may require additional legislative action, but we ought to surface some more debate, too. In other words, I am just not really satisfied with this.

We had some discussion of this with Senator Conrad in a ground water hearing just a couple of weeks ago, and he made the point that there is great dissatisfaction in his State with the compulsion that is involved with the Swampbuster Program and the potential unfairness to some of his farmers in the way that wetlands have been defined, and in the constraints that have been applied to his folks.

He feels that we are using much too much of a club in this area and too little way of positive incentives, and I suspect he may be right. If you tell a farmer, Senator Kasten, that there is a low place here in your field that is a wetland—he did not consider it wetland—and because we say that it is wetland we are now going to take all of his farm program benefits away from him, that is a rather shattering experience.

I have had some complaints out of Iowa, similar to that raised in a hearing just the other day by Congressman Grandy, and I hear them the other way, from the environmental community to the effect that the sanctions are inadequate.

So we have criticism of the program and some criticism of the administration coming from all ends of the environmental spectrum and all ends of the political spectrum.

Senator KASTEN. Well, my question was, does the fact that you did not discuss any of the wetland conservation provisions, specifically swampbuster, in your recommendations for the 1990 farm bill, does not mean that the program is working to your satisfaction that you do not at this time have specific ideas on what you want to fix?

Secretary YEUTTER. That is correct, Senator Kasten. I am not persuaded of the merits of those particular suggestions, but neither am I happy with the program.

WETLANDS CONVERSION DATA

Senator KASTEN. Well, I am not happy with the program either, but if you just look at the numbers, the Soil Conservation Service's data in October 1989, they found 3,743 wetlands encompassing 77,260 acres have been converted since 1985.

This is only on 25 percent of the farms receiving program benefits. So if you were to take that ratio and extend it out to all farms, the other 75 percent, what we would be talking about is that over 300,000 acres of wetlands converted into farmland since 1985.

Yet, according to the study performed by the National Wildlife Federation and given to you in December, only 26 individuals have been withheld Federal farm program benefits as of April 1989.

So, I mean, this is crazy. Now, maybe there has to be more flexibility with regard to that definition of a pothole or whatever, but the fact is that you are not enforcing the law right now.

At one point, some of us are going to have to be involved in at least enforcing the law and maybe it does have to be made a little bit more flexible. But right now it is not working.

Secretary YEUTTER. Senator Kasten, our people would like to debate that with you. Their answer to the National Wildlife Federation study would be that simply because sanctions have been applied in only 26 cases does not mean that the administration has been insufficiently aggressive.

One hopes that settlements will be reached on some of these issues through negotiation and conciliation and discussion and debate, rather than through the application of sanctions.

Senator KASTEN. I understand that, and that is an answer if the only fact I had was that only 26 individuals have been withheld Federal farm payments; but the other fact we have is that something close to 300,000 acres of wetlands have been converted, and that is not what we want to be doing.

Secretary YEUTTER. Well, I am not sure about the 300,000 acres of wetlands.

Senator KASTEN. You have to put those two together.

Secretary YEUTTER. I am not sure about the number, Senator Kasten, because you were doing an extrapolation there which may or may not be accurate.

But assuming for purposes of argument that your figure is accurate, the question really is whether or not those are wetlands that should not have been converted? You are implying in your comments that some or all of those should not be converted to cropland.

Senator Kasten. They would fall under the definition of the Swampbuster Program.

Secretary Yeutter. That is probable; however, with all due respect, Senator Kasten, we have to be careful not to be too simplistic there, because there is a sound rationale for farming those lands in many cases, and presumably, our folks found the sound rationale in those cases.

Now I suspect the National Wildlife Federation would not agree with that, and we have got a debate. But that is a very difficult judgment call for folks to make, because if you are a farmer and you have a 2-acre pothole out in the middle of your field, it is pretty hard to be convinced that that is one that ought to be preserved separately forever when it is interfering with one's farm operation in a significant way.

It is one that perhaps the man has been farming off and on for a good period of time. And I'm not trying to stimulate a debate between us. I am just saying, Senator Kasten, that these are very difficult judgment calls, and I am not sure that we have an agreed basis for defining what wetlands are.

Senator Kasten. Plus your definition is different from the Department of the Interior's definition in some of these areas, too.

Secretary Yeutter. Right.

Senator Kasten. I feel so strongly about both a strong agricultural economy, obviously that is critical to Wisconsin, but also having a program in place that is going to meet the goals of swampbuster. We do not need more land in agricultural production now and we are losing habitat very, very rapidly, and whether my 300,000 acres is right or wrong does not really make any difference.

We all recognize what is happening, and the direction we are going and the intent of the swampbuster provisions.

Mr. Secretary, I have some other questions which I am going to submit for the record and just conclude by saying that I want to work with you on this and I have got a strong conservation concern and also a strong agricultural production concern.

But we have to work our way through this. I do not believe that the present situation is workable. We have different agencies of the U.S. Government both, theoretically, having the same law in front of them, who interpret it differently, plus we have outside groups that are interpreting it differently from the Department of the Interior.

So let us work together on this because I think the concepts are right, and generally speaking they are supported with reasonableness by agricultural interests, as well as conservation interests.

Secretary Yeutter. Well, we will certainly try to work with you and everyone else, Senator Kasten, because we would like to have that be a successful program.

It is a dilemma for us at the moment, because as I indicated, we get precisely the opposite criticism in North Dakota from the arguments that you have articulated here today.

So we have, even in the Congress, the spectrum of views on this subject.

Senator **Kasten**. Mr. Chairman, I would to submit an opening statement and ask that it be included in the record at the appropriate place and I have some additional questions I would like to submit for the record.

Senator **Burdick**. Without objection, that will be received.

Senator Cochran.

Senator **Cochran**. Thank you very much, Mr. Chairman.

I just want to welcome the Secretary and Steve Dewhurst to our first hearing of the Agriculture Appropriations Subcommittee.

From what I understand of the comments that have been made so far, Mr. Secretary, you have given the committee a very complete statement on the state of agriculture and in rural America today, and I want to compliment you on the leadership you are providing in this area. I think you are doing a lot of things right, and I am very proud of the job you are doing.

I think we have some unique opportunities this year as we start our legislative process and our review of the budget. One is the opportunity that the changes that are going on around the world provide for us in the area of agricultural trade.

SUPPORT FOR TRADE INITIATIVE

I wonder if you have had an opportunity to look at the budget request in that context and if you think that some of the previous assumptions might need to be modified. Are we doing enough to provide the tools that are needed, either in the negotiations with our trading partners or in trying to help support our trade initiatives that need the special attention of this committee?

I am thinking specifically about the Export Enhancement Program, the Targeted Export Assistance Program, the Public Law 480 programs and others like them that can assist us in trying to enlarge our share of the world market or to take advantage of these unique opportunities.

Secretary **Yeutter**. The world is changing very rapidly, as your comments imply, Senator Cochran. President Bush and I were just speaking of this yesterday afternoon, as a matter of fact, and we had some discussion of this at a Cabinet breakfast this morning.

The pace at which change is occurring is mind boggling for all of us. I suspect that the changing situation makes at least some of our budget lines obsolete already and perhaps more will be obsolete by the time you finish this budget process.

I am not even sure at this point which lines those are, Senator Cochran. But certainly we will need to look at whether we have proper allocations to the programs you mentioned, the EEP Program, TEA, and especially Public Law 480.

With what has transpired now in Panama and Nicaragua, with the President's meeting with the leaders of Colombia, Peru, and Bolivia, and with what has happened in Eastern Europe, we need to give a very careful evaluation to Public Law 480, both in the farm bill discussions which are about to begin, or have already begun, and here in the budget process.

I do not have specific recommendations for you in either of those areas now. We do have an interagency committee that is looking at Public Law 480 provisions in an intensive way at the moment, and we expect to make recommendations to the agriculture committees on Public Law 480. That may well call for some adjustments here in the appropriations process as well.

I do not have any numbers for you now, but suffice it to say that it is important for the United States to respond to the developments in the countries that I have just mentioned and perhaps in some others before we are through.

We need to make sure that we have the tools, both the budgetary tools and the authorization tools, and we just need to work together on this as the weeks unfold.

We may have a different world 3 months from now than we do today.

Senator COCHRAN. In the conservation area I notice there are several budget proposals that we have not seen in a long time. I want to congratulate you for the request for funding of some of the cost-share programs administered by the ASCS, specifically the Agricultural Conservation Program and the Forestry Incentives Program.

Also, I noted the request which will allow 40 million acres to be enrolled in the Conservation Reserve Program through fiscal year 1991. I am assuming that there is sufficient funding included in the Soil Conservation Service budget for technical assistance to ensure that this kind of work continues and that deadlines are met.

CONSERVATION RESERVE PROGRAM

In connection with the Conservation Reserve Program, I am curious; do you plan to announce a 1990 signup? If so, do you want to make it now or tell us when it will be?

Secretary YEUTTER. I have indicated, Senator Cochran, that we are proposing to wait for the next signup until after the farm bill debate concludes, because we would like to give the agriculture committees a chance to make adjustments in that program if they would like to do so.

If the farm bill debate stays on schedule, we ought to be able to get it out of the way, hopefully before the summer recess, and then perhaps do a conservation reserve signup later in the year.

FOOD ASSISTANCE PROGRAM

Senator COCHRAN. I do not know whether anyone else has mentioned it or not, but I noticed there is a generous increase in food assistance programs for a total of $23.9 billion.

Has anyone calculated whether or not that is an all time high or not? I would guess that it is close. It is at or near a record high level of support for such programs as food stamps, child nutrition, the food distribution programs on Indian reservations and the like. This accounts for about one-half of the appropriations request, as I calculate it, for all Department of Agriculture programs.

I noticed there are some assumptions regarding legislative changes that could be made, and of course, those would affect the required funding levels of some of those programs.

In that connection, I know there is one assumption in the budget about the support for reduced-price meals in the School Lunch Program. There have been some visitors to my office just this week who have expressed some concern about that, and they worry about the impact that will have on school lunch programs. Have you had an opportunity to look at that, and what is your reaction to that concern?

Secretary YEUTTER. Yes; that is an issue that has been debated intensely within the school lunch community for many years. We were involved in that debate when I was here in the early 1970's. So that is an ongoing discussion.

The question is whether the kinds of funding shifts that we have proposed in the legislation will cause some schools to drop out of the School Lunch Program. We do not really know the answer to that question. It is conjectural. But our view is that we have to somehow get to the budget targets here and it may be that this is a year in which we need to make some of those shifts and hope that they will not have a significant effect on the number of schools that are participating.

My own personal view is that the shift that we have suggested here is not likely to reduce the number of participant schools very much, but I cannot either prove or disprove that. I just have to operate on my instincts and my experience of being involved with that program in the past.

But that proposal did permit us to achieve some savings in what is already a huge expenditure level as you point out, Senator Cochran. The budget has to give somewhere, and maybe we are taking some risk there, but if we do not take it in the school lunch area, we will have to do it somewhere else in the budget because we do not have an open spigot, as you understand very well.

Senator COCHRAN. I appreciate your responses to my questions. Thank you very much, Mr. Chairman.

Senator BURDICK. Senator Bumpers.

Senator BUMPERS. Thank you, Mr. Chairman. Welcome to the subcommittee, Mr. Secretary. We are always pleased to have you here.

I would like to pursue that line of questioning of Senator Cochran's on school lunches, which was also on my agenda. We are talking about the subsidy for school lunches that has been in place since the program began. The school food service administrators tell me that the reimbursement for upper income students is essential to keeping their programs operating. Those payments are the backbone of the program. It's easy to say that the payments for upper income children are unnecessary, but they are not.

I have a few affluent school districts in my State that would make it without these payments, but unhappily, you cannot fund programs or not fund programs based on what the most affluent school districts can do and how well they cope with it.

I am just like you, I do not know how many school lunch programs would close, but I am afraid to find out, and so I probably will take the same position that I assume Senator Cochran will take, that if you are going to do that at all, you ought to phase it out. You cannot just eliminate a program like that all at once.

SCHOOL LUNCH COMMODITIES

Now, having said that, school food service administrators also squawk about the lack of bonus commodities, and of course, I guess that is because we do not have very many commodities in storage anymore. We are not in the position to give the school food programs bonus commodities.

Is that a correct statement?

Secretary YEUTTER. Yes; that is correct, because of the drought of 1988 and some unfavorable weather conditions, too dry and too wet in a variety of places in 1989, stock levels of some of these products are simply substantially lower than they were earlier.

Senator BUMPERS. Senator Kasten, do not leave, this next question will get your attention. [Laughter.]

BUTTER USAGE

Some of them expressed to me that they get plenty of butter. They have been getting plenty of butter, and they are not just euphoric about that because most of them feel it is not necessarily the most nutritious food for young children. So one of the questions was, why cannot the Department of Agriculture mix butter with something else to reduce the fat content and make it a little more nutritious?

I have dairy farmers in my State, too, so I do not want to alienate everybody at one time.

Senator KASTEN. Not as many as I do. [Laughter.]

Senator BUMPERS. You decided to stay?

Senator KASTEN. I will wait for his answer. [Laughter.]

Secretary YEUTTER. Well, I suppose theoretically that could be done, Senator Bumpers, but I am not sure it would be practical to do that, either in economic terms or in political terms.

Obviously, that would generate some immediate interest on the part of Senator Kasten and others in butter-producing areas.

Senator BUMPERS. Would your answer have been different if I had just let him go on before I asked the question? [Laughter.]

Secretary YEUTTER. No; I do not think so, Senator Bumpers. The same answer: It is probably not practical.

Senator HARKIN. Can I interrupt here just for a second? I have a little interest in this area, too. If we change the Federal support removal away from fat content, to solids not fats, then we are all happier, right? I think my colleague from Wisconsin would agree with that. We get more high-protein quality dairy products into the program.

I did not want to ask that question in your time, but I will ask it when it gets to my time.

Secretary YEUTTER. That is right. I would just comment on that to say that such an approach is one way to have an effect. One of the reasons we have had excess butter supply, Senator Harkin, is because the alignment in the recent past has not been accurately determined.

But if we do it accurately, whether we do it on a fats basis or a total solids basis, we can affect the surplus supplies of butter. So we can get at that question in more than one way.

Senator **Kasten**. And that is something all of us would agree, you know. You have to move in that direction, and I think all of us want to do that.

EXPORT ENHANCEMENT PROGRAM

Secretary **Yeutter**. As you know, we have been doing that in the announcements that we had made recently, and we have already gotten things much better back into line.

Senator **Bumpers**. Mr. Secretary, in the narrative on the summary on your proposed farm bill it says that you would like an unlimited Export Enhancement Program.

In other words, we would just authorize, I assume, whatever sum the Department deemed necessary. Yet, in the budget I noticed that you anticipate this year's Export Enhancement Program costs to be $550 million plus and you are asking for $900 million next year.

Secretary **Yeutter**. Yes.

Senator **Bumpers**. There is a slight contradiction there. On the one hand you say you would like an unlimited amount, and on the other hand you are asking for $900 million as I read it. Perhaps I could stand correcting.

Secretary **Yeutter**. Well, the $900 million is an estimate, all we have really said, Senator Bumpers, is that we would prefer that it not be capped, and it has been capped in the past.

As you know, this is——

Senator **Bumpers**. I do not know how we do that. Does anybody here know how we do that, just not put a cap on it? What if you decided to spend $10 billion on exports?

Secretary **Yeutter**. I think we have a number of other programs where we do not have caps, do we not, Steve, so that such an approach would not be unprecedented.

Senator **Bumpers**. How do we deal with that?

Mr. **Dewhurst**. Well, when the EEP program was begun it existed in substantive law without a cap, and except for the action in the appropriations bill, it would not currently be capped.

That is true in some of our entitlements. It is also true in some of the other programs. However, it does not mean that the Congress would receive less information about what we are doing in the program. We do publish an estimate and all the information connected with that estimate, but it does mean that there would not be a legal limitation during the course of a fiscal year which when you hit it, you could not go any further.

Senator **Bumpers**. Well, I am not really worried about your abusing it. I am just saying that we ought to have some understanding, and obviously we would have to put some report language in if we were going to leave it uncapped.

Secretary **Yeutter**. As you probably know, Senator Bumpers, there is a disagreement between OMB and the Congressional Budget Office in this area, which is what accounts for this swirl of controversy.

The view of OMB, with which I concur, is that the EEP program is at worst budget neutral. In other words, our argument is that we save as much or more on deficiency payments as we would expend on the EEP program in moving exports out.

The CBO does not agree with that assessment, and that is why we have had this difference.

FARM BILL FLEXIBILITY PROVISIONS

Senator **Bumpers**. Has the Department taken any position on the so-called Leahy-Lugar bill?

Secretary **Yeutter**. You are talking about the flexibility provisions.

Senator **Bumpers**. Yes.

Secretary **Yeutter**. Yes; more or less. In our Green Book, we have our own set of flexibility provisions which are somewhat similar to the Leahy-Lugar bill, a bit more extensive and expansive, but more or less in the same ballpark.

Senator **Bumpers**. Mr. Secretary, going to your Green Book, I look at an illustration in there on flexibility. Let's start with an example of 300 acres with 100 acres of wheat, 100 acres of corn, and 100 acres of soybeans which is not a program crop.

Now, No. 1, under your proposal, I can plant soybeans on all 300 acres.

Secretary **Yeutter**. That is correct.

Senator **Bumpers**. And be paid a deficiency payment based on the traditional yields of wheat and corn?

Secretary **Yeutter**. That is correct.

Senator **Bumpers**. No. 2, I can plant 100 acres of corn and 200 acres of wheat and receive a deficiency payment on whatever the yield is on 100 acres of corn and 100 acres of wheat, but not the additional 100 acres. Is that correct?

Secretary **Yeutter**. That is correct.

Senator **Bumpers**. I would have to stay within the program acreage.

Secretary **Yeutter**. That is correct.

Senator **Bumpers**. Now, in each case you have to meet the set-aside, is that correct?

Secretary **Yeutter**. That is correct.

Senator **Bumpers**. In this case, 5 acres of wheat and 10 acres of corn.

Secretary **Yeutter**. That is correct. That is oversimplified in the sense that we permit people to do some planting on acreage set-aside if they give up some of their deficiency payments.

But ignoring that complication, they must comply with set-aside.

Senator **Bumpers**. Now, it is also my understanding that the purpose of all of this is to encourage the production of soybeans, that we are concerned about our carryover, the shortage of soybeans and so on. I understand that, but by the same token, under your plan I would plant all 300 acres in soybeans.

I think an awful lot of other farmers would do it, too. I do not see an impending shortage of corn and wheat and cotton and rice as a result of that, but I can tell you that I would plant, in the illustration in your Green Book, all 300 acres in soybeans. I would collect deficiency payments on 100 acres of wheat and 100 acres of corn, and I would make me some money on soybeans.

But if soybeans are in such short supply, why are they only $5.50 to $5.70 in this country?

Secretary **Yeutter**. If they are only at that price level, then you probably would not plant 300 acres of soybeans. If you could make more money elsewhere you would probably go to either corn or wheat.

The whole idea here is to provide the farmer some leeway to use alternatives in what to plant considering the market conditions.

Senator **Bumpers**. Well, I know, but I am talking about the illustration, Mr. Secretary, where you are not getting the deficiency payment. In other words, if you exceed the program, you get the deficiency payments on the program acreage, but not on anything in excess of that.

Secretary **Yeutter**. Well, that is right. You get the deficiency payments whether you are planting the soybeans or the corn or the wheat. But I am not so sure that folks will plant that many more acres of soybeans. Our projections are that there would be some additional acreage of soybeans, but that is really going to depend very much on market conditions.

The whole idea is to let them decide among those program crops which would be the more profitable in their judgment, rather than to have the Government tell them what they should grow.

I talked to a corn farmer last week as I was at the National Corn Growers' Convention who told me that he would not plant an acre of soybeans under this program this next spring.

So here is one, he is an Iowa farmer by the way, Senator Harkin, who sees just the opposite. But that is the way markets work; people make their own judgments about what would be the most profitable for them.

MARKETING LOANS

Senator **Bumpers**. Mr. Secretary, I do not want to take too much time. I have a question for you on marketing loans. I, personally, think that the marketing loans for cotton and rice are working reasonably well.

Would you just comment on that quickly?

Secretary **Yeutter**. Yes; I think they are working reasonably well, too, Senator Bumpers. We have not proposed any changes in the marketing loan concept in our farm bill proposals, the Green Book. We have made a few proposals on the way loans would be handled and so on, but actually those are really very modest changes.

Fundamentally, the Green Book would change the rice and cotton programs very little. We are generally pleased with the way they are working, and I believe your folks out in Arkansas view them the same way.

Senator **Bumpers**. Yes; they do, indeed.

Mr. Secretary, I have a number of questions on Arkansas projects that I am no particularly happy about, and I will submit those questions to you in writing, particularly on the Family Farms Research Center up in western Arkansas which I got established there about 10 years ago.

And incidently, I got a letter from somebody this week, Senator Cochran, saying that our research dollars are just being doled out by various members of this body and not necessarily going to who could do the best research and everything.

It seems to me that the Senators who always sign those are either from California or Massachusetts or someplace where they know they are going to get all the research dollars. If we do not redirect some to the University of Arkansas and the University of Mississippi, then a lot of good research will go unfunded.

So I "ain't" signing on to any proposal to eliminate special grants, I can tell you right now, and I am going to keep trying to get research money. As we know, Arkansas produces far and away more broilers than any other State in the Nation in an industry that employs 1 out of 10 working people in my State, and I want all the research money I can get for that industry and catfish and some other things that we are big in. I am not signing my State's rights to do some of their own research away, based on some elitist concept of who is the best researcher.

Finally, let me just ask you: Where are we going to find the $1.5 billion you are asking us to eliminate from these programs?

SOURCE OF FARM PROGRAM BUDGET CUTS

Secretary Yeutter. We talked about that somewhat earlier in the hearing, Senator Bumpers, and to give an oversimplified answer, we are going to have to sit down with the involvement of the two agriculture committees and the administration and work with the variables that are involved in determining what would be the best program for American agriculture.

The variables are target prices, the crop payment base, payment limitations and the way acreage reduction programs are to be administered. There are a couple of additional nuances, but fundamentally, we have to take feed grains, wheat, rice, and cotton and look at all of those in that light. We are not likely to alter the rice, cotton situation very much in any case, in my judgment.

This primarily becomes a question of how we formulate the wheat and feed grains programs, and then also how we handle soybeans in that context. Because as you know, soybeans do not today have target price protection, and they must be handled in a different way, either the way that we have proposed in the Green Book or some alternative way.

We really have to work particularly on the wheat, feed grains, and soybeans areas with all four of these variables. We might choose ultimately to do it a little bit differently, one to the other, in terms of how we would formulate those variables into a package.

That is one reason why we did not make specific recommendations. There is an infinite variety of ways to do this, and we have to find the best way.

Senator Bumpers. It is a difficult tightrope to walk, is it not?

Secretary Yeutter. Oh, yes.

Senator Bumpers. Did you ever read Lester Thurow's book, "The Zero Sum Game" or something? For every good effect an economic decision has, it has an equally adverse affect on somebody else.

Secretary Yeutter. Exactly.

Senator **Bumpers**. It seems to me that that is what you are up against.

Secretary **Yeutter**. Exactly. We have a $10.2 billion figure in our proposal, as you know. We have to figure out how best to use that $10.2 billion. How much of it goes into feed grains? How much of it into cotton, rice, or whatever are included in the program crop area.

Obviously, that is going to get into a lot of competition between and among commodity groups as well as discussion as to what is the best policy for the country.

Senator **Bumpers**. Mr. Chairman, if you will indulge me just one additional question?

REPORT OF JAPANESE PURCHASE OF RICE

I think certainly Senator Cochran will be interested in this, and that is, we are pretty excited about a story the other day that the Japanese are prepared to buy rice from us as a part of their own foreign aid program. They will buy rice from us and they will tell us who to ship it to as a matter of their foreign aid to other countries.

Have you been in contact with the Japanese on this?

Secretary **Yeutter**. I have seen that same newspaper story, Senator Bumpers, so I am aware of it. I have not had independent confirmation of that from anyone in the Japanese Government, so I cannot attest to the veracity.

Senator **Bumpers**. I think that is worth your making a contact with the Japanese Embassy here to find out whether or not that is in fact true. It would mean a lot to my rice farmers to know that Japan was in fact serious about that.

Secretary **Yeutter**. It would be helpful. I would certainly hope that our Japanese friends would not come to the conclusion that that is all they need to do on rice to meet their international obligations, because we think they should open up their marketplace as well.

Senator **Bumpers**. Well, it would help some of the feelings in my State where our rice farmers really are antagonistic toward the Japanese for all the reasons which you are all too familiar with.

But this would take a little bit of the bitter taste out of their mouths.

Mr. Secretary, thank you very much, and thank you, Mr. Chairman.

Senator **Burdick**. Senator Harkin.

Senator **Harkin**. Thank you, Mr. Chairman.

Mr. Secretary, every time I go back to Iowa and talk to farmers, I invariably hear the comment that even though the USDA farm report data are looking much better, it doesn't seem to the farmers that their situation has really improved.

I just have to take issue with you here a little bit. I keep hearing this. Your office keeps putting out rosy reports and I keep reading in the newspaper about the improved farm situation. I have been wanting to have a chance to discuss this with you.

In the second page of your testimony you said, "Net farm income in 1989 was at a record level of about $48 billion." That is what a lot of farmers hear all the time, record net income, and it is bandied about in all of the press. I think I have seen that assertion in the New York Times and the Wall Street Journal, and also the Washington Post. I believe all three have had some op-ed pieces about "closing the barn door, here comes the farm bill."

They point out that net farm income is at a record level, and they can quote you on it. Are you familiar with the publication that is put out called "The Economic Report of the President?" It comes out every year.

Secretary YEUTTER. Yes.

REAL VERSUS INFLATED FARM INCOME

Senator HARKIN. All right, here you go. Table B-96, Farm Income 1929 through 1989. And what they do—I am just using the President's own economic report, they use constant 1982 dollars to measure net farm income.

In constant 1982 dollars, the 1989 forecast was $38 billion. In 1929 it was $42 billion. In 1983 it was of course $12 billion, a bad year.

Back in the 1970's farm income was very high. In 1972 it was $41 billion; 1973, $69 billion; 1974 it was $50.5 billion. So how can you say we now have a record level of income?

An acquaintance of mine from Nicaragua said that a couple of years ago he made more money than he ever made before because of a 25,000-percent inflation rate. But even though he had more money than he had ever had in his life, he could not buy anything with it. Our farmers are up against the same kind of thing.

I am seriously concerned that we give the wrong impression to those that are not intimately involved in agriculture that things are rosy and bright and everything is wonderful. We hear about this record level of income, but like I say, the farmers I talk to are not experiencing it. Again, it's like my friend and the 25,000-percent inflation. There may be more money but no one can buy anything with it.

And I compare that to the economic report of the President. I say income is not at record high levels. Obviously, it is higher than in 1983; we have been coming up constantly since 1983, bit by bit, and I will admit, it is higher than it was last year, but no where near record level.

Comments?

Secretary YEUTTER. Sure. You make a very legitimate point, Senator Harkin, and it is one that all of us should articulate from time to time with our urban cousins in particular and everywhere in the United States for that matter.

We do need to evaluate real income rather than simply nominal income levels that may be distorted by inflation levels.

However, one must also recognize that the situation of 1989 versus 1929 differs, too, in that there are far fewer farmers today, so the income per farm comparison looks not nearly so pessimistic as the overall dollar figures.

One could suggest that means we have had the demise of lots of farms in the interim, which is true, but certainly that is a reflection of modernization and the advent of tractors and machinery and capital investment and all of that.

On a per-farm basis, I just saw some charts the other day, Senator Harkin, which indicated that 1989 was something like third or fourth, I believe, on the all time list of net farm income.

Senator HARKIN. In constant dollars?

Secretary YEUTTER. In constant dollars on a per-farm basis.

Senator HARKIN. Net income?

Secretary YEUTTER. Yes, correct. So we had a good year last year. Not the best year, not comparable to the years in the 1970's. The best years that we have had were in the 1970's, and then of course, it dropped way down in the early 1980's and it has now come back up again in 1988 and particularly in 1989.

But your point is a valid one. We ought to try to get more net income for agriculture if we can. I would just like to have us work hard on doing that in the marketplace rather than making us additionally dependent upon Government.

We can argue about how big the U.S. budget for agriculture should be, but we also have to work, I think, on the only long term answer there is and that is to get it out of the marketplace.

Senator HARKIN. I would agree with that. I noticed that in 1988 in Iowa, 83 percent of new farm income came from Government payments. In Illinois it was 118 percent.

Secretary YEUTTER. Yes; that is just an impossible situation.

Senator HARKIN. North Dakota, 192 percent of net farm income came from Government payments. I am not certain I understand that. That is amazing. [Laughter.]

Senator BURDICK. Can we not do better? [Laughter.]

Secretary YEUTTER. In any case, the chairman of this committee did very well. [Laughter.]

Senator HARKIN. It pays to be chairman, does it not? [Laughter.]

Well, at any rate, I just wanted to make that point about the record income. I did want to also cover with you two other items, one being crop insurance. I understand that Senator Kerrey asked some questions about that and I hope I do not plow old ground here with this, but you say that the administration's proposal in the 1990 farm bill states:

"Experience since passage of the 1980 Act has been disappointing." I think my farmers would say that they are pretty disappointed with the program. I have written you a lot of letters on crop insurance.

CROP INSURANCE

Let me just give you some examples. The Federal crop premium on corn for two counties in northeast Iowa was $6 to $9 an acre higher than in the adjoining counties, no other difference.

Coverage on hay is only offered in five Iowa counties on a pilot project basis. We cannot get coverage for apples in Iowa, and we have a lot of apple orchards in Iowa. Counties in northern Iowa have been growing potatoes since the 1920's or before. They cannot get insurance, but about 30 miles north in Minnesota they can get coverage.

We want farmers to diversify and experiment with different crops, but if they cannot get crop insurance, they are not going to want to do that.

Senator GRASSLEY. And apples in western Iowa, too.

Senator HARKIN. I mentioned apples; we cannot get apples covered in Iowa. Not anywhere in the State, can we, Chuck? Not at all in Iowa.

But again, even though the program may not be working, I do not think we should abandon it. We had 50 percent coverage nationally in 1989; Iowa was 86 percent. GAO determined that crop insurance could deliver disaster assistance most effectively and efficiently of all the possible options.

So I am wondering whether the administration is serious about doing away with the Federal Crop Insurance Program and going to a disaster payment program. The budget does not contain funding for a disaster payment program. So I have to ask you, are you serious about doing away with Federal crop insurance, and if so, will you submit a budget proposal for a disaster payment program for next year?

Secretary YEUTTER. We are dead serious about the proposal, Senator Harkin.

Senator HARKIN. I was hoping you would not say that.

Secretary YEUTTER. Even though I would agree with the GAO statement that crop insurance ought to be the better way to do this, it would have to be a crop insurance program that can function effectively within reasonable budget constraints.

GAO did not say anything about what it was going to cost, and that has been one of our problems, one of many problems in crop insurance.

But to take it a step at a time, your last question was whether we would submit a budget for the disaster bill and the answer to that is that we would assume that it would be self-financing or budget neutral. The expectation would be that savings in deficiency payments would offset any cost of a permanent disaster program. So it would be assumed to be budget neutral, which means it would not require any appropriations.

But to go back to crop insurance as the alternative, we have all of the same dissatisfactions that you expressed, Senator Harkin. It just has not done the job, notwithstanding a lot of diligent effort by many people, and we hear the same comments out of other States too. So it is not an Iowa problem. It is a national problem.

I must say that participation has been better in Iowa than in most States, and in fact, Iowa is one of the few States as I recall, where we are not taking huge losses, where it has been actuarially sound.

We are taking gigantic losses in some of the other States, notwithstanding 30 percent subsidized premiums. So we have a very expensive crop insurance program that really is not meeting the needs of American agriculture and is not achieving the participation levels that would avoid the superimposition of disaster programs on an ad hoc basis.

Senator HARKIN. Farmers tell me that the problem with crop insurance is that the premiums are too high and the program does not cover enough. Insurers say the reason premiums are so high and the program does not cover enough is because more farmers do not take it.

So somehow we have to break this catch 22. If we could get 80 to 90 percent of the farmers nationwide to take it, we'd have a broad pool, and then we could have broad coverage, reduce the premiums, and break that logjam.

Secretary YEUTTER. That is correct. My conclusion, and this would be oversimplified, is that there are probably two ways to do that with crop insurance, putting the permanent disaster option aside for the moment. One way is to put mandatory features in crop insurance. That does not necessarily mean totally mandatory, but I do not see a way to get participation levels up to 80 to 90 percent unless it becomes mandatory for people who participate in crop programs, or something awfully close to mandatory. In other words, there would have to be a very strong motivation relative to the traditional farm programs for participation.

The other way, which is something that Congressman English is working on on the House side, would be to totally restructure it in such a way that you also achieve participation even though it is not mandatory. One way he is looking at is to have certain elements of crop insurance being provided by the Government, in other words at no cost to the farmers, so you get 100 percent participation but it does not cost him anything.

Now the question is, How do you design a program with that kind of overhaul that would meet rational budget targets? That is not easy, of course.

Senator HARKIN. What we had hoped would happen with the crop insurance program when we changed it in 1980—because we left that subsidy in there, it was around $600 million a year, or something like that—was that with that subsidy you could get the farmers to sign up and keep the prices low.

Maybe we should have put more money into the crop insurance program. It seems that if you could get a better subsidy in there and get all the farmers to sign up—the subsidy may be high for a couple of years—but once you get the pool established and get everybody in the program, then you could reduce the subsidy because the costs would come down.

I am just wondering if your people have looked at that from an insurance standpoint. Yes; maybe you do need a couple of years of a high-shot subsidy, but then it would go down because you would have drawn a lot of farmers into the program.

Secretary YEUTTER. Well, that was the theory, of course, of the 30-percent subsidy and it obviously did not do the trick, so the question is, do we need 40, 50, 60, and if so, where do we get the money?

Senator HARKIN. The problem is we put the program in effect—what, in 1981, if I am not mistaken? Then in 1982 or 1983 there was a big drought and we had disaster payments again. And so, farmers said well, why should they buy crop insurance? They do not need it because they can rely on disaster payments.

Secretary YEUTTER. We did the same thing, of course, in 1988 and 1989.

DISASTER PAYMENTS

Senator **Harkin**. But the administration would do away with that crop insurance You go to a disaster payment program, and the way it is set up, as I understand it, the proposed disaster payment program would provide disaster payments to a farmer only if production in the county as a whole is below 65 percent of normal, and then once that county-level loss is met the individual farmer would have to have below 60 percent of the county average yield on his own farm to qualify for disaster assistance.

Well, what if you had a tornado that goes through a certain part of the county and wipes out two or three farmers, or something like that? They are not going to qualify for assistance.

Secretary **Yeutter**. That is correct.

Senator **Harkin**. What are you going to do about individual kinds of disasters like that?

Secretary **Yeutter**. There is no question, Senator Harkin, that permanent disaster legislation has lots of shortcomings.

Senator **Harkin**. That is why we tried to change it in 1980.

CROP INSURANCE EXPENSE

Secretary **Yeutter**. Precisely. Steve Dewhurst has pointed out, Senator Harkin, that our actual subsidy in crop insurance the last 2 years has been 70 percent and so we have a 50-percent signup with a 70-percent subsidy, and so it has become a very expensive program and we are still not getting the signup.

Senator **Harkin**. Are you talking about disaster payments?

Secretary **Yeutter**. No; this is crop insurance.

Mr. **Dewhurst**. This is the crop insurance when you consider all the money the corporation had to borrow from CCC to pay the indemnities they had to pay, if you look at the total cost of the program.

Senator **Harkin**. For the droughts that we had, you mean?

Mr. **Dewhurst**. Yes; what part was paid by farmers and what part was paid by taxpayers. It is 70 percent for taxpayers and 30 percent for farmers.

Secretary **Yeutter**. Part of that, of course, is you have to recognize that drought conditions have made it actuarially unsound the last couple of years, so we have had the losses on the program on top of the insurance premium.

Senator **Harkin**. Are you saying then, Mr. Secretary, you just want to go back then to what we had before, just a disaster payment program and sort of a catch-as-catch-can on crop insurance?

Secretary **Yeutter**. Either that, or we have got to do a total overhaul of crop insurance or else go to a mandatory kind of crop insurance program. Farmers do not like mandatory programs, but voluntary programs are sure not going to work as long as we continue to come along with the ad hoc disaster programs.

You know what has happened, Senator Harkin. Each time the Congress passes an ad hoc disaster bill they say, this is the last time. From now on we are going to tell farmers they have got to rely on crop insurance. We are not going to do this again. Then the next year, it happens again.

We have now gotten farmers to the point where they do not believe us here in the Government when we say, no more ad hoc disaster programs. Their reaction is that the Congress will do it again, and of course that is what happened last year.

Senator HARKIN. Well, it seems to me, under the proposal we have in front of us that the coverage is going to be a lot less comprehensive than it has been in the past.

Secretary YEUTTER. That is true. We are not looking at a very satisfactory situation at the moment, no matter how this is handled. One of the problems, of course, is the budget constraint, because I just do not believe we can afford the price tag that we have had in recent years. When you add the disaster bills to the crop insurance it has averaged out over the last decade at well over $1 billion a year.

Senator HARKIN. Well, I am sure we will be discussing crop insurance as we develop the farm bill, but I really question this direction that we are taking.

I think more and more farmers are taking crop insurance—and I am only looking mainly at Iowa. But more and more farmers are taking it, they are building it into their risk assessment. A lot of bankers tell me that when a farmer comes to them for a loan if the farmer has crop insurance, he is probably going to get the loan he wants. If the farmer doesn't have crop insurance, he may not be very happy when he leaves the bank.

Secretary YEUTTER. But unfortunately, Senator Harkin, as you know, there was clamor last year from Iowa, just as there was from a lot of other States, to pass that ad hoc disaster bill.

Senator HARKIN. I know that. You know that, too.

Secretary YEUTTER. We both know.

Senator HARKIN. Still, with 80 percent signup, that was pretty good.

Well, I do not know. A lot of changes have been suggested. I have taken enough of my time, Mr. Chairman.

Secretary YEUTTER. Let me just make one final comment that you heard me mention before.

One of the other unfortunate elements of passing the ad hoc disaster legislation is that as you know, it bails out those who have not bought crop insurance which, discourages some to sign up the next year, as we have already discussed. It also pits farmer against farmer, because that farmer who has bought crop insurance is not very pleased that the folks who did not have the foresight to buy it then get bailed out.

Senator HARKIN. Well, you know, you talk about mandatory programs, and farmers do not like them, but you know, we have things like checkoffs. We have a beef checkoff and a pork checkoff. Those are mandatory.

Secretary YEUTTER. Well, it seems to me that one possible way to handle this, if one were to evaluate the mandatory feature, would be to say to the farmer, you do not have to sign up.

When you come in to sign up for your farm program, you could have two check marks there. One says, have you purchased crop insurance? If he checks the yes, then of course he has crop insurance.

If he checks no, there ought to be a little couple of lines there saying this deprives you, or waives you from any disaster legislation. So he could choose not to, but then he is on his own.

Senator **Harkin**. But you cannot do that until the coverage—until the price is affordable and the coverage is acceptable.

Now, if I were a farmer in some parts of Iowa I would question whether I would take crop insurance too, because the price is so high and the coverage is so poor.

In the 9 years that Federal crop insurance has been in existence we have never gotten over that hurdle.

Secretary **Yeutter**. But it also becomes a budgetary issue, as you know, for all of you here in this committee. If you add $1 billion, or whatever it might be in this area, where do we take it from in the budget, out of deficiency payments? Do we take it out of food programs? Where do we find the money?

Senator **Harkin**. Well, I usually agree with the things that Mr. Bumpers from Arkansas says, but I do not agree with him on zero-sum games. I just do not believe we are in a zero-sum situation here.

I am sorry, I have taken way too much of my time. Thank you, Mr. Chairman.

Senator **Burdick**. Senator Grassley.

SWAMPBUSTER LAW

Senator **Grassley**. Mr. Secretary, I believe that the swampbuster law as it is written is a pretty good law. I think maybe most of the regulations are pretty good, but I think that there are some guidelines and some handbooks that are put out that raise a lot of questions. One of them is the extent to which the Fish and Wildlife Service ought to be reviewing every commenced determination.

I know that they are doing that some places in Iowa. I would suggest to you that maybe information put out is not very realistic. I cite from a letter "examples cited in instructions for wetland conversion provisions for commenced determination state that items beyond the producer's control include court orders to stop activity and physical disability. Shortages of funds is specifically cited as a reason which is not considered beyond the producer's control." That is whether or not he should be allowed.

Well, in the agricultural community, we had a depression in Iowa from 1983 through 1987 and you did not do this work because you did not have money. Now, when you wanted to do it in 1988 when you had money, then the USDA says "well, you cannot do it because shortages of funds is not a reason cited in the handbook." We have the Fish and Wildlife Service saying in my State, in one county, four out of five wetland cases that they reviewed should be denied because of that reason. Now, I just point that out. I am not here to raise questions except for you maybe to have an overview of it.

I would also hope that maybe you dig into some of these statistics that Senator Kasten gave you from this standpoint. I think you ought to know in every instance it was the intention of the farmer to be covered by the farm program, because maybe you have got a lot of land out there being converted with no relationship. People not wanting protection of the commodity programs.

The other thing would be, and maybe this would be a case where Senator Kasten and I have a difference, I do not know. But I would hope that you would not—I would not want any laws, working or not working, to be based upon the number of arrests, or the number of citations that have been issued. That assumes like there are a lot of crooks out there that are just waiting to be caught and you are not doing a good enough job of catching them.

I would say that maybe that could be an example of the program working.

Secretary YEUTTER. Yes; you are right, that is a very misleading number, because those are really the failure cases, if you will, where the controversy has not been resolved in an amicable and satisfactory way. One would really hope that that 26 would be zero if the administrative process is working satisfactorily, and so I do not subscribe to a view that a small number indicates lax enforcement. That may well be indicative of very effective enforcement.

Senator GRASSLEY. I do not know about Nebraska, but we would not be farming a whole large section of north central Iowa if it was not for the hard work and the investments that were made from 1910 to 1920 in drainage districts, and then there is even some question now whether under this law they should be allowed to maintain those drainage districts. You have got 80 years of investment and work in that, and so I would hope maybe you would look at that as well.

Secretary YEUTTER. Well, that is correct. We need to do sensible things in this area.

Senator GRASSLEY. But basically I think the way you approach the law that, you know, it may not be totally right from either side at this point. As long as we are just 3 or 4 years into the enforcement of it I think it is a reasonable approach. Now, maybe 5 years from now I would say you ought to be more definite on one side or the other, but I think I like the approach that you are just going to have to feel your way along.

Secretary YEUTTER. We are going to try to do it in a rational way. That is all we can do. We are in the business of balancing interests here, and they are very delicate interests.

Senator GRASSLEY. Mr. Chairman, I am done. Thank you.

Senator BURDICK. Mr. Secretary, the Department has budgeted $11.7 billion for commodity programs for fiscal year 1991. However, reading further down in the budget, the Department states that the commodity program savings of $1.5 billion will be required for fiscal year 1991. USDA made no recommendation for how Congress should achieve these savings. I am somewhat disappointed to see that the administration wants to cut commodity programs so deeply again.

AGRICULTURE'S SHARE OF FEDERAL BUDGET CUTS

Agriculture gets no credit for reducing spending from a high of around $26 billion a few years back to less than $10 billion for this year. Further, each time we go through reconciliation, agriculture is asked to cut about $1 billion. Do you not think the farmers have been asked to shoulder more than their fair share of budget cuts during the past several years?

Secretary YEUTTER. Well, we would like to get additional revenue for agriculture if we could, of course, Mr. Chairman. But this is a very difficult process in times of Gramm-Rudman-Hollings discipline. And we had long and comprehensive debates and discussions of all of this within the administration as these decisions were ultimately made by the President. I suspect you will have long and difficult debates here, too, both in the Appropriations Committee and in the budget committees.

I wish we had additional funding, but I do believe it is important, Mr. Chairman, that we achieve budget discipline, that is, we bring the Federal budget deficit down. And it is important to agriculture to reduce the deficit. If we lose that discipline, and if we do not fulfill the Gramm-Rudman mandate, my judgment is we will see higher interest rates in this country. Agriculture is a major borrower, and we could well be a net loser in that exchange. In other words, we might get another $1 billion in deficiency payments or in income supports in the budget process, but maybe lose $2 billion by higher interest rates.

So I intend to be a team player and support the administration budget, because a lot of thought and attention went into that process.

AGRICULTURE'S RESPONSE TO EMERGING DEMOCRACIES

Senator BURDICK. Does USDA's 1991 budget anticipate continuing to work with Eastern Europe by providing ongoing technical assistance and production management policies, marketing and collaborative research? And what agencies will be involved? What will be the cost of these efforts?

Secretary YEUTTER. As I indicated in the discussion with Senator Cochran in a very brief way, we do hope to have some involvement in Eastern Europe and perhaps in some of the other countries such as those in Central America where democracy is now burgeoning once again.

It is difficult at this moment to discern just what the magnitude of those efforts should be or will be and what the costs may be. We have nothing in this budget proposal that would be specifically aimed to realize any of the objectives you have just cited. It may be that we will have to come back for further discussions at some time in the future on that. We do not have any present plans to do so, but this is a rapidly moving area, very fluid, in which we are going to have to respond as time goes on.

We have an Extension Service team in Poland, or had one there last week, as an example. We will get a report from them as to whether we should have some further activities in that area.

We are doing some things with Public Law 480, of course, with section 416, with the Food for Progress Program and a number of those efforts will go on. We may do some things with the Export Enhancement Program that might have some implications in that area, and there may be some other efforts of various kinds, in forestry for example, where we can be useful.

All of this is just unfolding right now, Mr. Chairman. We are part of an interagency team that is assessing all of this on almost a day-by-day basis. That team is being headed by Larry Eagleburger, the Deputy Secretary of State. Dick Crowder, who is our Under Secretary for International Affairs and Commodity Programs is a part of that effort, and a number of other people are as well.

So the short answer, Mr. Chairman, is we may have some more to say to you and some more items to discuss with you in the future, but I cannot be any more specific at this point in time.

FARM LOANS

Senator **BURDICK**. Now to shift to farm loans. Your budget continues to propose to shift borrowers from direct to guaranteed loans, yet you admit to not having been as successful as you would like to in this area. I agree with you it would be nice if we could use guarantees instead of direct lending, but my people tell me that it just cannot work. The farmers still have to pay a much higher interest rate, even with the guarantee. The lenders resist taking on questionable loans.

I might add that the loans become more questionable in terms of the farmers' ability to repay precisely because the interest rate is higher. Now you proposed to subsidize some of the guaranteed loans by providing funding for buying down the interest rates by 2 to 4 percentage points. What is the difference in the interest rates between a direct loan and a guaranteed loan? What is the range of differences, and what is the average difference?

Secretary **YEUTTER**. I will ask Mr. Dewhurst if he can give you the ranges because I do not recall how far we have gone with the direct loans, but there is very substantial range there, Mr. Chairman, and we will let him respond more definitively in just a moment.

What we were attempting to do there now is provide a menu of potential loan programs, one of which ought to fit each individual situation. In other words, it seems to me that when we are dealing with a potential borrower in the Farmers' Home Administration, we ought to design a loan that will fit his situation.

You are correct, Mr. Chairman, that in the past, a lot of our guarantee loan programs have not worked because the interest rates have been at too high a level for that farmer to amortize that loan.

We believe now with the interest buy-down, which could be 1 percent in some cases, 2 percent in others, 3 percent in others, 4 percent in others, coupled with direct loans, we can fashion a program for each borrower that makes sense and gets maximum utilization out of the revenues that you provide us.

So that is the thrust of this program which would give us some flexibility that we have not had before and, hopefully, make it a lot better program.

It would be marvelous if we could all do it through direct loans, but we are just not likely to have the money. But I will ask Mr. Dewhurst if he can give you very quickly the range.

Mr. **DEWHURST**. Yes, sir; direct loans by Farmers' Home are made at two interest rates. One is called the cost of money interest rate, which is the rate the Treasury Department is paying for funds, roughly 10 percent, I suppose at the moment. The other is called the limited resource interest rate, a subsidized interest rate, usually about 6 percent. I suppose a market rate for those loans is at least two points higher than the 10 percent, probably 12 percent or higher right now. The buy-down proposal would permit us to guarantee loans and have the farmer pay an interest rate roughly equivalent to the cost of money or somewhat below that. So that farmers now getting direct loans at that rate could afford to move to a guarantee.

There is still some direct money in the budget to handle limited resource borrowers, because those subsidies are so deep that we are not going to convert those to guaranteed loans.

Secretary **Yeutter**. In other words, Mr. Chairman, we really ought to be able to provide loans in a range of probably about 6 to 12 percent, 6 to 13 percent or thereabouts, and within that range we ought to be able to meet the needs of most borrowers, certainly more effectively than we have in the past. The guaranteed loan programs are not a perfect way to go as your question surmised, but neither are direct loan programs when they increase outlays in such a way that it causes us problems on the outlay front.

Senator **Burdick**. What percentage of direct loans goes through the limited resource rate?

Mr. **Dewhurst**. The last I looked at the data, Mr. Chairman, about two-thirds of the loans go at the limited resource rate.

INTEREST BUY-DOWN VERSUS SUBSIDY

Senator **Burdick**. Do you have any basis to believe that lenders will participate more actively in the interest subsidy program than in the interest buy-down program?

Secretary **Yeutter**. We certainly hope so. I would expect that they would, Mr. Chairman, because of the very reason that you articulated as you began this questioning. A lender is not going to want to participate, even with a guarantee, unless he feels his borrower is going to be able to pay off the loan.

If he can make a loan at 8 percent interest rather than 12 percent, that significantly enhances the likelihood that that borrower is going to succeed and be able to amortize the loan and make his payments on principal and interest. And so we think there will be a lot more interest on the part of creditors at lower rates than at existing commercial rates.

Senator **Burdick**. In view of the lack of success in the Guaranteed Farm Loan Program, why is the administration recommending a similar approach or a guaranteed loan program for low-income homeowners.

Secretary **Yeutter**. The same reason that with an interest buy-down, we believe that we can get a greater utilization of guarantee funds in that program just as we can in the farm ownership or farm operating programs.

And there we can offer now a menu with an even broader interest rate spectrum because of our ability to use vouchers and rental assistance and interest buy-downs along with direct loans and loan guarantees at commercial rates. So here, the spectrum would be even wider, all the way from about 1 percent, if I recall correctly, Mr. Dewhurst, up to 12 or 13 percent. And we should be able to handle rural housing projects depending upon the needs of the given project, anywhere in that 1 to 13 percent spectrum.

Senator **Burdick**. Let us take, for example, a farm loan in North Dakota. What is the interest rate difference between a direct and a guaranteed loan today?

Secretary **Yeutter**. Today, as Mr. Dewhurst indicated, you could do a direct loan at probably about 6 percent. A guarantee at commercial rates would probably be in the 12- to 13-percent range. If our buy-down provisions were incorporated, Mr. Chairman, we could bring the 12 or 13 percent down by as much as 4 points, which would bring them down into the 8- to 9-percent range. So we could do 8 to 9 percent interest rates with our proposed guaranteed program compared to about 6 percent interest with the direct loan program.

Senator **Burdick**. Well, that gives me the answer why the farmers are for direct loan.

Secretary **Yeutter**. Well, naturally, if I could borrow at 6 percent interest, I would be happy with that, too. But I can tell you that the farmer down the street who is paying 12 or 13 percent interest is not terribly enthusiastic about the Federal Government loaning his neighbor money at 6 percent.

And by the way, we are getting more and more letters as time goes on, expressing that viewpoint. In other words, why are you folks making 6 percent loans? I am paying 12 or 13 percent, and I am making my interest and principal payments. You are loaning at 6 percent to the guy down the street, who is spending it all on fancy new pickups and not making his principal payments.

Senator **Burdick**. Not all of these farmers have a fancy new pickup.

Secretary **Yeutter**. Not all of them, some of them.

CROP INSURANCE

Senator **Burdick**. I am concerned about the administration's proposal to replace the Federal Crop Insurance Program with Permanent Disaster Program.

As you know, North Dakota consistently has one of the highest participation rates in the Nation, if not the highest. As the last 2 years have shown, it is with good reason that our farmers participate in this program. I am afraid this year looks no better.

While I agree that our present crop insurance program has been less than adequate in its coverage and participation rate, and that we cannot afford both a crop insurance and an ad hoc disaster program year after year, I am not convinced that the administration's proposal offers sufficient protections from the vagaries of the weather.

The basis for my concern is the requirement that a county must experience a drop in the county average yield below 65 percent of normal yields before a farmer gets benefits. As you are aware, many counties are very large or have precipitation patterns that result in part of the county experiencing what we all would recognize as a disaster while other parts would produce quite normal yields.

How do you propose farmers be protected from this situation?

Secretary **Yeutter**. Well, as we indicated in the colloquy that Senator Harkin and I had earlier, there are not any easy answers to that, Mr. Chairman. We are not providing yield risk in a satisfactory way in either crop insurance or disaster legislation today.

That issue will have to be aired thoroughly in the agriculture committees as they deal with this year's farm bill, and hopefully we will emerge with some kind of package that will do a good job in a cost-effective way. But we have a lot of work to do on that in the coming weeks.

Senator **Burdick**. If this situation is not protected in some way, the private companies will be stepping in to offer insurance?

Secretary **Yeutter**. There is some indication that private companies would be willing to do more if Federal crop insurance were indicated.

I had a letter just a few days ago from one of those firms, Mr. Chairman, who said that his company had not offered much in the way of policies in this area in the past because he did not want to compete with the Federal Government. But if the Federal Government got out of the insurance business, he was prepared to come in with an extensive multiperil program.

What the premiums would be, he did not say. And I cannot evaluate, of course.

Senator **Harkin**. Does he know about the previous experience a few years ago, when some private companies got in on that, and they took a bath in it, too?

Secretary **Yeutter**. I do not know, Senator Harkin.

Senator **Harkin**. That was back in the 1970's. Some private companies got into multiperil insurance. And they lost their shirts on it. So I do not see that a company could do that, beyond hail and fire insurance.

And of course, they were woven into the Multiperil Crop Insurance Program.

I am sorry, Mr. Chairman.

Senator **Burdick**. That is fine. We are interested in crop insurance in Iowa, too.

Senator **Harkin**. We sure are. And I do not want to go over it again, but I think it is going to leave a lot of farmers hanging out there on this disaster program if, in fact, you are really going to try to do away with it. And I have talked to a lot of my colleagues up here, and there is not much support for doing away with the Federal Crop Insurance Program.

Secretary **Yeutter**. Well, as I said, Senator Harkin, we are willing to look at the crop insurance alternatives, but we have got to do a lot better than we have done so far.

Senator **Harkin**. I agree with you; we do. How we get over that hurdle of getting farmers into the program, so we can get that pool big and get the coverage broad and get the price down I do not know. I have been fighting that battle for 9 years now.

Secretary **Yeutter**. That is the secret.

Just to add one point to that. As you know we had a crop insurance commission that made recommendations to us last summer on this.

Senator **Harkin**. That is right.

Secretary **Yeutter**. And a lot of those were good recommendations. But I just said to them that my conclusion is that if we do everything that they recommend, we are still not going to get the kind of participation we need. I am convinced that this is not going to do the trick.

Senator **Harkin**. That was the commission on the improvement of crop insurance?

Secretary **Yeutter**. Yes; that is correct. And they did a good job. But, fundamentally, their answers would call for significant increased financial commitments by the Government into the program. And that is all right if it would do the trick, in terms of getting the participation up.

And as I said, I am convinced that if we do everything that they have suggested, we are still going to be at participation levels that are substantially too low.

Senator **Burdick**. Do you have any more questions?

Senator **Harkin**. I just have one more, Mr. Chairman, and I thank you.

TOBACCO PROGRAM

I have always had a hard time getting a handle on how much we are spending on tobacco programs. And I know the commodity program actually makes some money on it for the Government. But then we have, I think, some targeted export assistance for tobacco sales overseas.

A lot of my constituents ask me how come we are spending so much money in the Federal Government on tobacco? And I tell you, I have become more sensitive to this question as chair of the health appropriations subcommittee. I see how much money we are spending to take care of people because of smoking.

And I would just like to get a handle on it. If you do not have the figures with you could you just send them to me please. I would just like to have a good rundown on what we spend on tobacco.

Mr. **Dewhurst**. We have a table that we could give you. It summarizes the research, the extension, the economic research work, and all the things we do in the tobacco area. It shows direct outlays other than our price support programs of about $36 million around the Department in different activities.

Senator **Harkin**. $36 million?

Mr. **Dewhurst**. Yes, sir.

Senator **Harkin**. In outlays. Now do we not also subsidize sales abroad or something like that?

Mr. **Dewhurst**. Well, they are involved in some of our market development programs in FAS. And that cost shows up in this.

Senator **Harkin**. That is in that $36 million?

Mr. **Dewhurst**. I am not sure. There may be some other things built into the CCC numbers that I do not fully understand at this point. And if I need to get you more explanation, I will.

Senator **Harkin**. If you could just send n the rundown on what they are and how much is involved.

Mr. **Dewhurst**. Sure.

[The information follows:]

UNITED STATES DEPARTMENT OF AGRICULTURE
PROGRAM - BY - PROGRAM SUMARY
ESTIMATED COSTS RELATED TO TOBACCO ACTIVITIES
(Dollars in Thousands)

DIRECT OUTLAYS a/	FY1988 Actual	FY1989 Actual	FY1990 Estimate	FY1991 Budget
Agency/Activity:				
Agricultural Research Service:				
Marketing and Utilization Other than Health-Related Research	187	185	181	181
Marketing and Utilization, Other Receipts and Outlays	0	0	0	0
Health-Related Research	4,888	4,954	5,024	5,024
TOTAL, ARS	5,075	5,139	5,205	5,205
Cooperative State Res. Service:				
Plant Production Protection from Insects, Disease and Weeds	400	368	369	377
Production Efficiency	632	581	583	596
Marketing and Utilization Other than Health-Related Research	11	10	10	10
Marketing and Utilization, Health-Related Research	11	10	10	10
TOTAL, CSRS	1,054	969	972	993
Extension Service:				
Extension Education on Tobacco	800	780	780	730
Pest Management Projects	45	44	44	41
TOTAL, ES	845	824	824	771
Economic Research Service:				
Forecasting and Projection	210	214	246	270
National Agr. Statistical Service:				
Agricultural Statistics	511	496	496	509
Foreign Agricultural Service:				
World Market Analysis	211	224	254	260
Developement of Foreign Markets .	141	150	169	174
TOTAL, FAS	352	374	423	434

DIRECT OUTLAYS a/	FY1988 Actual	FY1989 Actual	FY1990 Estimate	FY1991 Budget
Agency/Activity:				
Agricultural Stabilization and Conservation Service:				
Administrative Expenses of Price Supports	8,403	10,829	10,833	11,117
Agricultural Marketing Service:				
Market News	681	742	837	900
Inspection, Grading and Standardization	142	185	203	213
TOTAL, AMS	823	927	1,040	1,113
Federal Crop Insurance Corporation:				
Tobacco Insurance:				
Indemnities	15,308	24,697	27,167	28,525
Producer-paid premiums b/	-13,793	-14,842	-15,585	-16,364
Government-paid prem. subsidy	3,146	3,461	3,740	3,927
Net	4,661	13,316	15,322	16,088
TOTAL DIRECT OUTLAYS	21,934	33,088	35,361	36,500
COMMODITY CREDIT CORPORATION				
Lending Activity: c/				
Loans Made	203,374	40,837	99,372	98,322
Sales Proceeds	0	0	0	0
Repayments	-657,025	-414,372	-402,413	-236,165
Other Receipts and Outlays	388	6,542	-4,000	0
Total Net Outlays	-453,263	-366,993	-307,041	-137,843
Realized Losses	1,931 d/	12,453 d/	-4,000 e/	0

a/ Direct outlays include spending for all USDA tobacco-related activities except lending. Direct outlays are not likely to be recovered in future years. Loans will normally be repaid in future years. b/ Negative numbers denote receipts. c/ CCC Estimates in the President's FY 1991 Budget Request. Net outlays include miscellaneous expenditures and receipts. d/ Past realized losses were incurred through interest expenditures and sales operations. e/ Minus (-) sign denotes net gain.

Senator **Harkin**. I do not know if there is any targeted assistance programs for tobacco or not. I would appreciate information on that.

Secretary **Yeutter**. I am not aware that we use TEA funds there, but I could check.

Senator **Harkin**. I would like to know all of the different outlays that we put into tobacco, plus the CCC, which we have in the book. I would appreciate that.

Thank you very much.

Thank you, Mr. Chairman.

SUBMITTED QUESTIONS

Senator **Burdick**. Thank you for your testimony. Additional questions will be submitted by the following Senators: Byrd, Kasten, Conrad, Burns, Bumpers, McClure, Specter, and Burdick.

We trust you will respond to these in a timely manner.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR BURDICK

TARGET PRICE LEVELS

Question: Along with many of my colleagues, I was disappointed that the Department did not provide the Congress with its recommendation for the targe price levels. Is the Department now prepared to provide its recommendation for target prices?

Answer: Target prices are just one of many agricultural policy tools that work in combination to bring about desired results in the agricultural economy. Therefore, target prices cannot be examined in isolation, but rather in conjunction with other policy instruments such as payment yields, acreage bases, and payment limits. We will work closely with Congress to achieve common policy and budgetary objectives.

FOOD SAFETY INITIATIVE

Question: Mr. Secretary, The President's 1991 budget includes a new $25 million food safety initiative. Accordingly, several USDA agencies would collect and analyze residue data in the U.S. In the food supply. Are there areas you believe the Food and Drug Administration's Residue In Foods Program falls short of meeting necessary goals for tracing residues In the food supply?

Answer: The FDA program is designed to find violators and is limited to testing where suspicions warrant validation. Such information may significantly overstate dietary risk. Our proposal would provide statistically reliable information on the use of pesticides and the presence of pesticide residues on the food supply.

Question: Is the Total Diet Study inadequate or inaccurate?

Answer: Yes, the Total Diet Study is inadequate for our purposes. We propose to examine the pesticide residues contributed by various agricultural commodities that make-up a particular food product. The Total Diet Study examines the food product without breaking it down into the specific ingredients.

Question: In what specific ways will USDA be cooperating with FDA In its food safety data collection and analysis efforts?

Answer: The Department has already been meeting with FDA to coordinate our food safety data collection and analysis effort with their compliance activities. We will be sharing the information on pesticide use by farmers and the pesticide residues on fresh fruits and vegetables. This information should improve the effectiveness of their compliance operations.

Question: You mention that USDA will be working with the Environmental Protection Agency. With respect to the integrated pest management program and In providing best management practices assistance to farmers, will USDA be working with EPA to collect and analyze compatible data?

Answer: Yes, the Department has already been working with EPA regarding the pesticide use surveys undertaken as part of the water quality effort. We are continuing that coordination for the surveys to be undertaken as part of the food safety effort.

FOOD STAMP PROGRAM

Question: The 1990 appropriation for the Food Stamp Program (excluding the Puerto Rico Nutrition Assistance Program) totalled $14.770 billion. This figure was adjusted in our appropriations conference to reflect increased participation costs estimated during the mid-session review last summer. The appropriation enacted exceeded the President's 1990 budget request by over $1.5 billion.

The President's 1991 budget requests "such sums as may be necessary" to supplement the Food Stamp Program so that benefits are not reduced during the remainder of the 1990 fiscal year.

Current estimates on additional funds needed for the Food Stamp Program for the remainder of this fiscal year range from $375 million to $510 million. According to this range of estimates, the authorization ceiling for the Food Stamp Program must be raised, otherwise potential benefit losses to recipients could result.

Mr. Secretary, in your statement you mention that "it is difficult to predict total (food stamp) program costs this early in the year with as much precision as we would like." Yet, in prior years, we have not had to revise the President's initial budget request by the magnitude of almost $2 billion. Please explain why we are seeing such tremendous fluctuations in the estimates for food stamps? Are correlations between unemployment and participation no longer valid?

Answer: It is apparent to us that factors other than unemployment are causing participation to rise beyond the levels we anticipated. Unexpected increases in participation are also occuring in the Aid to Families with Dependent Children (AFDC) and other welfare programs. In response to this, the Food and Nutrition Service is investigating both inhouse and by contract factors other than unemployment that could be incorporated into our participation models. Another factor which drove food stamp costs upward was a higher than expected rise in food costs. Since food costs are heavily influenced by weather-related events such as droughts and the recent freezes in Florida and California, they are impossible to predict with accuracy a year in advance. For example, from 1989 to 1990 food costs rose by more than twice the increase projected in the 1990 budget. Maximum monthly benefits for a family of four - which incorporate the upward adjustment required by the Hunger Prevention Act of 1988 - increased from $300 in 1989 to $331, rather than to $315 as projected in the 1990 budget.

Question: Please comment on what trends you are finding in preparing your budget. For example, is the number of the working poor households on the food stamp program growing?

Answer: Based on food stamp household characteristics data through 1987, the latest year for which data is available, we do not see any dramatic evidence of increases in the number of working poor. For example, between 1984 and 1987, households reporting earned income stayed at about 20 percent of all food stamp households.

Question: What is the current average length of time that a household receives food stamps?

Answer: More than half of all continuous periods of food stamp receipt end within 7 months. Because some households receive food stamps continuously for several years, however, the average length of participation is 18 months. However, the length of stay in the program differs substantially for different demographic groups. The types of households that tend to stay considerably longer than the caseload as a whole include recipients of Aid to Families with Dependent Children benefits and the elderly. The types that tend to have shorter lengths of receipt are work registrants, single persons, and households with earned income.

Question: Are you finding that more families are on the program longer than a few years ago?

Answer: At this time, we do not have a definitive response to this question. However, we are evaluating data available through the Survey of Income and Program Participation (SIPP) and other sources to develop answers to this and related questions.

Question: What is your current estimate of the additional funding needed this year?

Answer: According to the most recent data available on participation and expenditures, the $375 - $510 million range continues to be a reasonable estimate, subject to change as additional data become available.

NUTRITION ASSISTANCE PROGRAM FOR PUERTO RICO (NAP)

Question: The President's 1991 budget calls for the termination of USDA's management of the Nutrition Assistance Program for Puerto Rico, which is funded at $936 million in 1990. Instead, administration of the NAP would be transferred to the Department of Health and Human Services at a reduced funding level of $825 million. Did USDA request the transfer of Puerto Rico's Nutrition Assistance Program to the Department of Health and Human Services?

Answer: No, USDA did not request this transfer.

Question: What would be the impact of the recommended reduced funding on benefit and participation levels for Puerto Rico?

Answer: The proposal would establish a broad-based assistance program for Puerto Rico, not just a nutrition assistance program, and the Commonwealth is given extensive flexibility in tailoring the program to the needs of its low income households. The Department of Health and Human Services is, as we understand it, working on the details of this program. At this time, we cannot say what the proposed funding level will provide.

P.L. 480 PROGRAM

Question: The 1991 budget estimates an increase of 500,000 metric tons of commodity shipments under P.L. 480, despite a reduced program funding level of $80 million. On what specific factors does USDA base its lower commodity price assumptions?

Answer: More "normal" weather and levels of production have been assumed for the 1990 crop, and this is expected to result in lower prices for P.L. 480 programing. The prices used to develop P.L. 480 tonnages are based on the Department's official price and supply/demand projections developed by the Interagency Commodity Estimates Committees. Wheat is a particularly important factor in these estimates because it represents a substantial portion of total P.L. 480 commodity programing.

Question: Is it realistic to expect total commodity shipments to reach 6.4 million metric tons under a reduced program level of $1.46 billion?

Answer: The estimate of total P.L. 480 commodity shipments of 6.4 million metric tons during fiscal 1991 was developed last December when the President's Budget was prepared. Based on the Department's supply and demand projections at that time, we believe our tonnage estimate can be reached. Many factors will influence the volume of P.L. 480 commodities eventually shipped during fiscal 1991, not the least of which will be weather conditions for the 1990 crop.

PRESIDENTIAL INITIATIVES

Question: The 1991 budget includes several Presidential initiatives on water quality, food safety, research, and global change. Each of these initiatives would require extensive data collection, analyses, and technical assistance from various USDA agencies. Particularly In the area of chemical residues and toxic substances, it is important that new efforts by USDA to implement data collection, analyses, and technical assistance are conducted In a manner which is compatible with on-going regulatory efforts of other federal agencies such as the Environmental Protection Agency and the Food and Drug Administration. By working together, these agencies can ensure maximum and expedient results, without duplication. Please tell the Committee how the efforts of each USDA agency under the Presidential initiatives will be coordinated to assure that data collection, analyses, and technical assistance is compatible with the on-going regulatory efforts of other federal agencies, including but not limited to the Environmental Protection Agency and the Food and Drug Administration.

Answer: The USDA Agency initiatives have been coordinated within the Department through the Assistant Secretaries as delegated by my office. During the annual budget review process, the previous program performance is analyzed in order to make coordinated Department budget proposals. I am a member of the President's Domestic Policy Council which assures that the Department's activities are coordinated with the other agencies of government.

Question: Are other agencies cooperating with USDA to help avoid duplication of effort?

Answer: Yes, after policy level decisions regarding program directions have been made, we have established staff level working groups to assure that the program activities avoid duplication.

SUSTAINABLE AGRICULTURE

Question: What is your definition of sustainable agriculture, and what is included in the budget for sustainable agriculture under ARS, CSRS, and ES respectively?

Answer: Sustainable agriculture is, for the foreseeable future, productive, competitive and profitable and conserves natural resources, protects the environment and enhances the public health and safety. Funding related to sustainable agriculture in the 1991 budget includes $109.9 million for the Agricultural Research Service, $72 million for the Cooperative State Research Service and $20 million for the Extension Service. Included are research and extension programs on integrated pest management, crop rotations, cover crops, manure use and handling, nitrogen fixation, biological control and development of improved management practices.

QUESTIONS SUBMITTED BY SENATOR BUMPERS

NEWPORT, ARKANSAS FIELD OFFICE

Question: The Newport, Arkansas field office whcih supports the work of the East Arkansas Groundwater Study has recently been closed because of a severe shortfall in funds for the Arkansas SCS. This field office is critical to the success of the program, and I would like your support in helping to find sufficient funding for the rest of FY 1990. Can you help?

Answer: As I understand it, the Newport, Arkansas field office has not been closed and is currently staffed by a district conservationist and soil conservationists. However, the SCS project coordinator for the Eastern Arkansas Groundwater Study, located in Newport, did retire earlier this year and sufficient funding is not currently available to fill the position. Nevertheless, SCS is continuing to provide assistance to the study area through the district conservationists of the study area, area office personnel, and appropriate State office specialists. If additional funds become available this fiscal year, SCS will make every possible attempt to fill the project coordinator's role.

RURAL ABANDONED MINE PROGRAM

Question: There is consern that the new Army Corps of Engineers 404 permit interpretation may threaten the Rural Abandoned Mine Program (RAMP). What is the USDA doing to resolve this issue?

Answer: Until recently, the issue of whether a 404 permit is needed to neutralize and drain acid ponds created by abandoned mines in Arkansas has been dealt with at the local level. States with abandoned mine drainage problems use their own water quality agency to examine the area to determine if the situation represents an environmental hazard. Ponds with extreme acid conditions that represent an environmental hazard are usually drained and reshaped to prevent additional damage. Technical and financial assistance is provided upon request for this purpose by the RAMP program through USDA's Soil Conservation Service. The Corps of Engineers position in the State of Arkansas has been that a 404 permit must be obtained before corrective action is taken to drain acid ponds. State officials as well as representatives from SCS, the U.S. Fish and Wildlife Service, and the Office of Surface Mining have met with the Corps of Engineers District Engineer and it is hoped that this issue can be resolved in an agreeable manner.

P.L. 480

Question: The 1991 budget for P.L. 480 calls for an $80 million reduction in funding, but projects a 500 thousand metric ton increase in shipments. Are you predicting a significant lowering of prices so that this projection will be achieved? If not, how will you meet expections with $1.46 billion?

Answer: The price estimates used to develop P.L. 480 tonnage projections are based on official commodity price and supply/demand estimates developed by the Department's Interagency Commodity Estimates Committees. Based on assumptions of more "normal" weather and levels of production for the 1990 crop, prices are expected to be lower, and thus P.L. 480 tonnages are projected to increase. This is particularly the case for wheat which represents about 50 percent of total P.L. 480 commodity funding. Based on the information available last December when the fiscal 1991 budget was prepared, we should be able to provide 6.4 million metric tons of commodity assistance through P.L. 480 at the President's requested funding level.

Question: What impact will this cut have on any assistance we may be providing to newly emerging democracies?

Answer: Conditions are changing rapidly in Eastern Europe and elsewhere, and it is a little difficult to predict what the full impact of these changes will be for P.L. 480 and other U.S. food assistance programs. However, the President's Budget request for fiscal 1991 does provide for an increase of approximately 500,000 metric tons of P.L. 480 commodity assistance. Also, the United States can respond to additional food aid needs with other authorities and programs. For example, both the Food for Progress and Section 416 (b) authorities are being used to assist Poloand this year in addition to P.L. 480 Title I. We would expect to use these authorities again next year if circumstances warrant it.

GUARANTEED HOUSING LOAN PROGRAM

Question: I am pleased that this budget request does not include the same, tired voucher program for housing loans as proposed during the last several years. In exchange, you propose a guaranteed loan/voucher program, plus a proposed reduction in direct loans, that I fear will become the new tired proposal from the Administration. What makes you believe a guaranteed housing loan program will work any better than the underutilized guaranteed loan program under farmer programs?

Answer: We believe housing guarantees will be fully utilized. Firt because those with accompanying interest rate assistance will be in strong demand, since guaranteed borrowers will pay rates closer to our full-subsidized direct loans. Second because these guarantees are for home ownership, and farm home ownership guarantees are in high demand; it is the farm operating guarantees that have been under-utilized. And third, because our staff will be vigorously marketing these guarantees and assisting borrowers in their negotiations with local banks.

Senator Bumpers, our proposal for guaranteed housing loans is a small part of a package we have proposed to provide maximum flexibility for tailoring assistance to the individual housing needs of rural residents. Our proposal is a four-tiered approach, the first tier being the interest assisted guaranteed program to serve primarily families with incomes of 60 to 80 percent of median family income that need some assistance in qualifying for commercial credit. The second tier is the non-subsidized guarantee to serve primarily families with incomes of 80 to 100 percent of median family income that need only the guarantee to qualify for commercial credit. The third and fourth tiers are FmHA's traditional programs of direct low interest loans for single and multi-family housing and rental assistance combined with a voucher program to ensure that low and very low-income families have access to safe and sanitary housing. Vouchers will be used primarily in those areas that have adequate housing stock and new construction through FmHA's traditional programs would be counter productive. We think vouchers will compliment rather than replace our existing programs.

WATER AND WASTE DISPOSAL GRANTS

Question: Considering the proposed $109 million reduction in the water and waste disposal grants from last year, what do you project to be the number of unfunded grant requests on hand after 1991 to be if you succeed in your request?

Answer: We do not forsee any significant change in the number of unfunded requests as a result of our proposal. The number of unfunded grants at the end of the fiscal year has remained pretty constant over the years regardless of the amount of funding available for the program. FmHA estimates that there would be 630 unfunded requests for grant assistance totaling about $350 million at the end of fiscal year 1991.

RURAL ELECTRIFICATION ADMINISTRATION

Question: You told us last year that you were a friend of the REA. Aside from not proposing elimination of the REA, how does your request differ from past years in substance?

Answer: The proposal for 1991 continues direct loan assistance for electric distribution borrowers that cannot afford to obtain commercial credit without significant increases in their rate structure. Distribution borrowers who can afford commercial credit, and that is the majority of them, will be assisted in the form of a 70 percent guarantee of a private sector loan. These borrowers currently obtain 30 percent of their capital needs from the private sector. A 90 percent guarantee of private sector loans will be available for generation and transmission borrowers. For the telephone program, we are proposing that all loans, including loan guarantees, be made by the Rural Telephone Bank.

COMPETITIVE RESEARCH GRANTS

Question: I commend the Department for recommending an increase in competitive grant funds, including research funds for gene mapping and global change. However, as we discussed at the February 28th hearing, I am concerned that the USDA has nothing to ensure that smaller land grant or other agricultural universities have a true opportunity to compete for these funds. Unless the process is reformed, I am convinced that this increase in funding will only ensure that the rich get richer without ensuring that the best research is being conducted. Will you provide a breakdown of competitive grants awarded for the last five years including information on recipient schools, amounts awarded, research conducted, and the number of grant requests by university?

Answer: We are providing copies of reports on the competitive grants programs for the past five years separately to your staff. In addition, the following table shows the number of proposals submitted by each State for fiscal years 1984 through 1989. This information is collected by State, not by university.

COMPETITIVE RESEARCH GRANTS - FISCAL YEARS 1984 THROUGH 1989

State	Total Grant Applications Submitted	Number of Grants Received
Alabama	109	13
Alaska	10	0
American Samoa	0	0
Arizona	150	49
Arkansas	64	10
California	959	290
Colorado	161	22
Connecticut	102	19
Delaware	28	3
District of Columbia	37	11
Florida	334	73
Georgia	223	51
Guam	0	0
Hawaii	51	5
Idaho	59	5
Illinois	449	113
Indiana	265	68
Iowa	206	54
Kansas	167	42
Kentucky	149	41
Louisiana	163	18
Maine	42	11
Maryland	286	63
Massachusetts	242	77
Michigan	286	88
Micronesia	0	0
Minnesota	233	62
Mississippi	107	8
Missouri	267	65
Montana	67	5
Nebraska	153	30
Nevada	52	13
New Hampshire	57	6
New Jersey	122	21
New Mexico	54	6
New York	638	179
North Carolina	288	57
North Dakota	70	8
Northern Marianas	0	0
Ohio	310	68
Oklahoma	137	20
Oregon	212	59
Pennsylvania	228	52
Puerto Rico	9	0
Rhode Island	41	21
South Carolina	65	6
South Dakota	29	4
Tennessee	112	20
Texas	501	78
Utah	127	20
Vermont	39	7
Virgin Islands	0	0
Virginia	188	30
Washington	280	69
West Virginia	42	3
Wisconsin	371	105
Wyoming	41	4
TOTAL	9,382	2,152

Question: Also, will you provide your plan to ensure that competitive grants will not be awarded in the future based on the same 'old boy' basis?

We also recognize the need to enhance the ability of all eligible institutions to compete and we have taken specific steps to address the need. First, we are proposing that ten percent of the National Research Initiative funds be made available as strengthening grants to institutions and researchers that have traditionally not been strong competitors under the competitive grants programs. These funds would also support post-doctoral and graduate students from the institutions which need to strengthen their programs. This will assure that a greater diversity of talent is brought to bear on the vexing problems addressed through these programs. Second, our competitive grants staff has been sponsoring seminars to provide information on competitive programs and to provide information on development of high quality proposals to enhance competitiveness. Finally, the peer panel experts who evaluate the research proposals are changed annually and are chosen from a large pool to assure wide geographical distribution and involvement of women and minorities. We believe that these actions, in addition to the development of new talent through other programs such as the 1890's Capacity Building Grants, will assure a broader range of participants in the competitive grants programs.

FOOD SAFETY CONSORTIUM

Question: Your budget request contains no funds for the Food Safety Consortium under special grants. I have been told by CSRS sources that this research project is one of the best they fund, providing real results for the money spent. Considering the Department's emphasis on food safety, why is this producing research project being abandoned?

Answer: We recognize the importance of food safety research and our budget includes a $10.8 million increase within the Agricultural Research Service for food safety projects. Increased funds in ARS are proposed to fund the development of new rapid tests for drug and pesticide residues, means to eliminate mycotoxins from commodities and techniques to eliminate microbiological hazards. Regarding the food safety consortium, funds have not been included for this or other earmarked grants which could be funded through Hatch Act funds or other funds available to the States.

Question: If expanded by Congress, what areas would you like to see included?

Answer: We would not support expansion of the funding for this project. As noted, we are proposing a $10.8 million increase in the ARS budget for targeted food safety research to address the needs of producers, regulatory agencies and consumers. The ARS work builds on ongoing programs conducted by the Agency and is closely coordinated and planned to meet specific needs of inspection programs of USDA and other Federal agencies.

NATIONAL RESEARCH COUNCIL

Question: When reductions in special grants, as proposed by the USDA, are taken into account in conjunction with the increase proposed for the NRI, isn't the funding increase that is being trumpeted for all agricultural research considerably less than that called for by the National Research Council and not much above last year?

Answer: The National Research Council, in its report "Investing in Research: A Proposal to Strengthen the Agricultural, Food and Environmental System", suggested a $500 million increase in funding for this research. The report recognizes the need to provide this increase over a multi-year period, rather than in a one year timeframe. Our 1991 budget provides more than a 4 percent increase in research funding above 1990 and includes a commitment to provide annual increases of $50 million for the Initiative if Congress provides funds for award on a competitive basis.

RICE GERMPLASM CENTER

Question: The rice industry has worked hard for the creation of a rice germplasm laboratory and storage center in Stuttgart, Arkansas, the heart of the rice industry. I know you have met with industry leaders to discuss this important issue. Considering the real problems with the rice collection in Aberdeen, will you support the rice industry on this matter?

Answer: The Conference Report accompanying the Rural Development, Agriculture, and Related Agencies Appropriations Act for fiscal year 1990 provided funding for the Cooperative State Research Service --CSRS-- to prepare a report on the Rice Germplasm Center. CSRS has requested a program plan from the University of Arkansas which they are preparing that should be completed in early April. CSRS is planning to have a team of scientists visit the University and they will prepare a report on this facility which will be provided to the Appropriations Committees.

MINORITY SCIENTISTS

Question: Last year, I indicated my strong support of USDA efforts to encourage the production of greater numbers of black scientists. Can you provide a statues report on this effort?

Answer: First, let me reiterate my strong interest in this area, and my appreciation for your support of our efforts. In 1990, the Department is administering the 1890 Institutions Capacity Building Grants program. The objectives of the program are to advance university teaching and research capabilities, foster partnerships with industry and other institutions, and stimulate non-Federal support for higher education. For 1990, $5.4 million is available and institutions are being encouraged to obtain non-Federal matching funds. Program managers expect to award the first grants under the program by late summer 1990 and we are encouraged to hear that the 1890's are having success in obtaining matching funds. Given indications of success, we are proposing an $11 million program for 1991 with a requirement for matching.

SOUTH CENTRAL RESEARCH CENTER

Question: I am a very strong supporter of the ARS South Central Family Farms Research Center located near Booneville, Arkansas. The research benefits a unique clientele across the entire southern region, and I am anxious to learn what the USDA is planning for this center in 1991.

Answer: As a result of the FY 1990 Increase of $200,000, a Research Agronomist and a supporting Animal Scientist are to be added to the Booneville staff positions. The research objective for the new research scientist is to expand knowledge of the establishment, persistence and management of forage legumes in shallow acid, and poorly drained soils typical of hill-lands of the region. The lack of this knowledge has precluded the efficient incorporation of forage legumes into viable grazing systems. The new project will continue to focus on improvement of the fundamental knowledge of the plant-animal interface, and it should increase the amount and value of information and techniques that we make available to family farmers.

The proposed FY 91 Budget for the USDA-Agricultural Research Service maintains funding and staffing levels at the same level as the FY 90 appropriation.

EXTENSION SERVICE NUTRITION PROGRAMS

Question: Because the Extension Service has a presence in nearly every county in the U.S., Can you submit a proposal on how the Extension Service can assist the Food and Nutrition Service and other health care agencies in providing home visits to women at risk on low birthweight infants to encourage participation in prenatal care programs, developing in-home programs to teach child-care skills, providing postnatal home visits to prevent malnutrition in newborns and promote attendance at well-child clinics, and in providing nutrition education and program outreach on the WIC program?

Answer: All of our nutrition education programs for low-income audiences, including the Expanded Food and Nutrition Education Program (EFNEP), collaborate with other public and private sector organizations. Across the country, Extension has formed partnerships with organizations such as the Food Stanmp Program, shelter programs, soup kitchens, Tribal Health Services and anti-hunger coalitions. These Extension programs rely heavily on paraprofessional and volunteer assistance for delivery of services.

While cooperation with the Food and Nutrition Service exists, there are opportunities for additional joint efforts to increase effectiveness of programs, which we will be pursuing. We will also be looking at opportunities to expand model programs already developed in some of the states.

FOOD SAFETY INITIATIVE

Question: How will the USDA coordinate with the EPA and FDA?

Answer: Each agency has an important role in helping to assure the safety of our food. We expect, and our experience in developing this initiative has shown, that each agency will execute its role. We plan to continue to work with both EPA and FDA to achieve our goals.

Question: Which agency will emerge, in your opinion, as the lead agency?

Answer: We expect each agency to maintain leadership in its area of expertise. For example, if you want to know about application levels of farm chemicals, USDA is always going to be the lead agency on that. If you want to know whether a certain chemical might pose any risks, and at what concentration levels such risks might be found, USDA will be doing science on that, while EPA would continue to make the final decision on registration of the chemical.

Question: What new research is the USDA proposing in the food safety area?

Answer: We are proposing a $10.8 million increase for food safety research at our Federal labs. Increased funding is proposed for projects to develop new rapid tests to detect drug and pesticide residues, means to eliminate microbiological contamination of meat products and methods to eliminate pre- and postharvest contamination of commodities with mycotoxins.

Question: Do you include low-input research in this total?

Answer: No, low-input or sustainable agriculture research is a separate program. Funding for those programs in 1990 is $106.1 million at our Federal labs and $72.5 million in programs at the universities.

INDIVIDUAL RISK PROTECTION

Question: Your budget request proposes to eliminate the Federal Crop Insurance program in favor of disaster assistance. Isn't it reckless to propose the elimination of this risk management program, thereby causing great concern among many farmers, without putting a proposal on the table that offers protection to individual farmers and not just areas?

Answer: Farmers who have decided against multi peril crop insurance have for the most part been able to manage risk through private hail and fire insurance, crop diversification, off-farm employment, storage reserves, and other measures. Further, these measures used by individual farmers to manage risk can have very beneficial impacts on rural communities.

We have found that even under the present crop insurance program many producers consider effective individual risk protection is unavailable because rates are too high or the yield offers are too low. Other farmers offered excessive yields have collected indemnity payments year after year.

We have worked with representatives of the insurance industry and farmers to consider reforms of the crop insurance program. We have not found a way within current budget constraints to increase insurance participation and benefits enough to avoid supplemental ad hoc disaster assistance.

Our proposal to replace the crop insurance program with permanent disaster payment authority should allow private insurance to develop supplemental coverage for those producers who are willing to purchase such insurance. While there would be no Federal subsidy for the insurance, the industry would not be subject to any Federal interference.

Question: Why should a farmer have to hope that all his neighbors suffer a disaster as well just to be able to qualify for assistance?

Answer: The disaster program provides a safety net protecting farmers and rural communities against catastrophic crop losses. Private hail and fire insurance and other individual risk protection measures will remain available. Further, as noted we would expect the private industry to develop insurance policies to supplement the proposed disaster assistance authority.

FLEXIBILITY PROPOSALS

. Question: As we discussed, I have reviewed your farm bill ideas for 1990, and for a man who has been quoted as saying that the 1985 farm bill was a success, you are proposing many sweeping changes. You are championing "flexibility." Is it not true that the National Cotton Council, the Rice Millers Association, the National Corn Growers, and the National Wheat Growers have largely rejected your positions on unlimited flexibility?

Answer: We do not view our proposals regarding flexibility as introducing sweeping change to the successful elements of the 1985 Farm Bill. The provisions of current law that contributed to increased exports and farm income would be enhanced by the adjustments we are proposing.

Many of the initial objections we have heard regarding our flexibility proposal are based on the belief that dramatic acreage shifts would generate supply and price volatility. No evidence exists from non-program crops or farmers' prior actions in program crops to support the view that such dramatic changes would occur. If, contrary to reason and experience, oversupply did occur, the continuation of authority for acreage reduction programs would provide USDA the opportunity for management of overall supply.

LOAN RATES

Question: In your 1990 farm bill proposal, you claim that only wheat and corn have experienced real loan reductions, while rice and cotton have had such reductions cushioned. Isn't this a skewing of the facts when you take into account the Findley loan levels for wheat and corn?

Answer: Under the Food Security Act of 1985, price support rates for wheat and corn have declined further than price support for cotton and rice. The percentage declines from the 1985 crop to the 1990 crop are: wheat, 41 percent; corn, 38 percent; upland cotton, 12 percent; and rice, 19 percent.

Two factors are mainly responsible for the differences in declines between wheat and corn price support rates and cotton and rice price support rates. First, wheat and corn are subject to the so-called "Findley provisions" that allow additional price support rate reductions, while cotton and rice are not. Second, cotton and rice have statutory minimum price support levels while wheat and corn do not. Both of these differences limit or cushion the reduction in cotton and rice price support levels.

FINDLEY PROVISIONS-WHEAT

Question: The Findley loan has been a wheat mainstay. How would wheat compete in the export market on the basis of the Findley loan alone without EEP assistance?

Answer: The so-called "Findley provisions" made a major contribution to increasing wheat exports in the mid-1980's because they allowed a lowering of the wheat price support rate at a time when the rate was artificially propping up wheat prices. The lower rate sent signals to our competitors that the U.S. was no longer willing to maintain a price floor for the rest of the world. One recent study suggested that lower price support levels were reasonable for 35 percent of the increase in wheat exports in 1986 and 11 percent of the increase in 1988. The study also suggested that the combination of lower price support rates and the EEP was responsible for 50 percent of the increase in wheat exports for the period 1985 through 1988.

Maintaining "Findley provisions" is important because the provisions could again become important to wheat exports. At current market and price support levels, however, the EEP has a greater impact. Results from three recent studies suggest that the EEP increased wheat exports by anywhere from 7 percent to 30 percent during various time periods between June, 1985 and May, 1988.

The contribution of the EEP to U.S. wheat exports at a given time depends on many factors: exchange rates, importer demand, domestic global supplies, and agricultural policies of customers and competitors. Changes in European Community subsidies in response to changes in EEP levels are particularly important.

It is clear that EEP has allowed U.S. wheat producers to compete for export market share in the face of competitor subsidies. If competitor subsidies that distort trade could reduced or eliminated, U.S. wheat producers would be very competitive in world wheat trade.

FLEXIBILITY PROPOSALS - SOYBEANS

Question: I am concerned about the Department's obsession to grow more soybeans at what I see as at the expense of southern producers. I know that you are concerned about program fairness, and I would appreciate it if you would share with the Subcommittee how your flexibility proposals will be administered so as not to burden unfairly southern growers?

Answer: The Administrations's flexibility proposal does not reflect an obsession to grow more soybeans, but a desire to permit the production of U.S. soybeans and other crops to be more responsive to world price changes and marketing opportunities. Under current policy, U.S. soybean production is constrained by the acreage reduction programs for wheat, feed grains, cotton and rice. Under our flexibility proposal, when the price of soybeans changes in relation to other crops, competing South American producers will no longer be able to count on U.S. soybean production being constrained by these acreage reduction programs. More responsive U.S. production will create a more competitive market facing other exporters, which should discourage expansion in foreign soybean acreage over the longer term.

Our proposal would maintain the soybean price support rate at the minimum of $4.50 per bushel. At this level soybeans will competitive in world markets, and at the same time, this level of support will provide soybean producers with price and income protection.

SOYBEAN PROGRAM PROPOSAL

Question: Would not a marketing loan for soybeans answer many of your concerns and still protect farmers?

Answer: Philosophically, I am not opposed to the marketing loan concept. The aspect of the marketing loan that bothers me is the cost. Implementing a marketing loan above the market-clearing price would increase government outlays at a time when we are trying to reduce the Federal deficit. An increase in outlays for the soybean program would most likely require cutting back on other income support programs or elsewhere in the USDA budget. We believe that our flexibility proposal in conjunction with a soybean price support rate of $4.50 per bushel would best achieve production responsiveness and provide price and income support to producers.

PROGRAM CONSISTENCY

Question: Why are you so interested in making all major crop programs look alike?

Answer: We are not interested in applying similar provisions across major crop programs simply for the sake of consistency or administrative ease. The wheat, feed grains, cotton, and rice programs are so closely interrelated that, for equitable and efficient farming operations, it is essential that the major program provisions be alike. Dissimilar program provisions often result in producer planting decisions which are contrary to decisions undertaken in response to market signals. For example, if the target price or price support level for one crop is high relative to another crop, producers will tend to plant the crop with the higher support regardless of market price signals. Other provisions, such as base acreage determinations, also need to be the same. Under current provisions, upland cotton and rice producers can build or lose a base in 2 years, whereas, it takes 5 years for wheat and feed grain producers. With these differences, producers are reluctant to shift planted acreages, regardless of market prices, because of the impact that it will have on future base acreages. Another goal is to substitute provisions that we believe have been successful, such as the loan rate provisions for grains, for provisions that have not worked as well, such as loan rate provisions for cotton and rice. To the extent that successful provisions can be more widely applied, major crop programs will be similar.

RICE AND COTTON PROGRAM PROPOSAL

Question: The marketing loan has worked for both rice and cotton, and the cotton program is projected to return $240 million back to the treasury this year. Most rice and cotton producers, users, and marketers are happy with the marketing loan. At the hearing you insisted that you were a strong supporter of the marketing loan. However, by eliminating the loan floor and sticking on a Findley loan as you propose, will you not only destroy the mechanics of the marketing loan, but also squeeze rice and cotton farmers with the payment limitation to a far greater extent than wheat and corn farmers?

Answer: The USDA proposed changes would allow price support rates for rice and upland cotton to better reflect world market prices. The current price support rate policies for these two commodities -- especially statutory minimum price support rates -- have resulted in a heavy reliance on the loan program, thereby resulting in market distortions that have reduced competitiveness. For grains, lower price support rates and the use of the "Findley provisions" helped to increase our exports and regain our share of world markets. The higher exports contributed to the record farm income and lower CCC outlays in recent years.

Statutory minimum price support rates for rice and upland cotton have resulted in high price support rates for these commodities in comparison to the price support rates for wheat and feed grains, which have no statutory minimum. The proposed changes would treat program crops equally. Marketing loans would continue for rice and upland cotton but would not be used as often since the price support rates could be lower. The incomes of rice and cotton producers would continue to be protected through increased deficiency payments if market prices are lower because of reduced loan rates.

The regular deficiency payments would continue to be subject to the $50,000 payment limitation. Any "Findley payments" for rice or upland cotton would be subject to the overall $250,000 payment limitation, the same as marketing loan gains or loan deficiency payments under current provisions. A lower formula loan rate could result in a larger amount of regular deficiency payments per unit subject to the $50,000 payment limitation. The following table shows the projected maximum amounts of additional deficiency payments per unit that would be subject to the $50,000 payment limitation:

Crop Year	Rice $/Cwt.	Upland Cotton Cents/lb.
1991	.32	3.0
1992	.63	6.2
1993	.92	6.6
1994	1.20	6.8

It is important to note that the amount shown would be the maximum amount, shown would be realized only if the farm price was below the price support rates determined under an extension of current law and below the loan rates determined under our proposal. The economic outlook does not indicate that prices are likely to fall to such low levels; hence, the projected levels are far below the maximums in most years.

CCC REDUCTION'S IN PRESIDENT'S BUDGET

Question: We discussed where you would propose Congress cut $1.5 billion to meet the Administration's budget proposal. Will you provide more details?

Answer: Although we have not proposed specific changes that could be made to achieve the budget savings, Chapter V of the

President's budget summarizes some of the approaches we have in mind. Target prices and/or the acreage used in determining deficiency payments could be reduced; or payment limitations could be tightened. We prefer to work with the Congress in determining the best way to achieve the necessary budget objectives within a sound policy framework.

CENTRAL AND EASTERN EUROPE

Question: I am aware that the USDA has sent several teams of experts to Central and Eastern Europe to aid in the redevelopment efforts. The USDA has a stellar reputation in the region, and I applaud you for your foresight. What is being done to ensure that the USDA, with its long history of involvement in the region, is taking a lead role in the effort?

Answer: The rapidly changing conditions in Eastern Europe and the Soviet Union require that the Department develop a coherent approach and have the ability to respond in a timely manner to Administration efforts to encourage and assist the development of more market oriented economies in that region. In addition, we need to be prepared to follow up quickly on trade development opportunities for American agriculture as they arise. Consequently, we are establishing a small Secretariat for Eastern Europe and the Soviet Union under the guidance of the Under Secretary of Agriculture for International Affairs and Commodity Programs. The Secretariat will have an overall coordinating role for the Department's activities in the region.

Question: Is the USDA responsible for coordinating all agricultural related assistance? If not, why not?

Answer: The President has designated Deputy Secretary of State Lawrence Eagleburger as the overall coordinator of U.S. Government assistance to the countries of Eastern Europe. The Department of Agriculture works in cooperation with his office to coordinate the agricultural related assistance to the region. The Agency for International Development is also involved with some agricultural projects, and we work with them as well.

FOOD AND AGRICULTURE ORGANIZATION

Question: I understand that the two FAO organizations, the Codex Alimentarius Commission and the International Plant Protection Convention, will be playing major roles in the GATT negotiations. Just how important is this to American agriculture, and given that the U.S. is in arrears in its payments to FAO, what impact might our payment record have on GATT or other benefits we get from FAO?

Answer: The Codex Alimentarius Commission and the International Plant Protection Convention, both of which are staffed and administered by FAO, will be crucial for implementing an agreement on the harmonization of sanitary and phytosanitary measures which we hope to achieve during the Uruguay Round negotiations. If the United States is going to participate in the establishment of the scientific and technical guidelines upon which the new GATT system will rely, we must be active participants in these groups. American agriculture stands to benefit if these efforts ensure that our exporters will not face unjustified health-related trade barriers in the years to come.

Due to shortfalls in appropriations over the past several years, the U.S. has accumulated over $125 million in arrearages to FAO. No doubt our arrearages have affected the organization's ability to participate in the GATT sanitary and phytosanitary effort. Other FAO activities which are important to U.S. interests are likely to be affected as well. These include research on the loss of tropical forests, initiatives in plant genetics, international trade in farm chemicals, and data gathering on food production and trade, particularly in developing countries.

OICD

Question: Last year, Congress provided $125,000 for the U.S./Ireland exchange program as authorized by Section 1420 of the Food Security Act of 1985. What is the status of this program?

Answer: To date, three teams of USDA and university scientists have visited Ireland on exchanges under the U.S./Ireland exchange program. The topics of these visits have been on linking agricultural databases, diseases of peas, and evaluation of port facilities in Ireland.

The exchange visit on foliar diseases of peas is a good example of the types of activities which take place under the U.S./Ireland program. Last fall, a USDA scientist from Washington State traveled to Ireland to study foliar blight, the most serious disease of peas in Ireland. If resistance to foliar blight is found and incorporated into the Irish plants, it would reduce crop losses. At the same time, seed companies in the United States sell a significant amount of seed in Europe. Resistance to this disease should help these companies' overseas sales.

In May of this year, a USDA delegation will be traveling to Dublin to negotiate with the Irish our plan of action for the remainder of the year. We anticipate conducting activities in three areas -- short-term scientific and technical exchanges; longer-term collaborative research; and agribusiness opportunity missions.

SPECIAL FOREIGN CURRENCY PROGRAM

Question: As you may know, I am a strong believer in what has been known as the special foreign currency program under OICD. Once again, your budget includes nothing for this program. Aside from the constant refrain of budget constraints, what is the policy reason for attempting to limit this program?

Answer: The reason we have proposed no further funding for the Foreign Currency Research Program is related less to budget constraints -- the fiscal 1990 appropriation for the program is less than $1.0 million -- than to the greatly reduced supplies of foreign currencies owned by the U.S. Government. This is reflected in the fact that only one country, Burma, remains on the "excess" currency list compiled by the U.S. Treasury. Because of diminished supplies, whatever currencies the U.S. Government does own are generally needed to finance U.S. Embassy and related operations.

Several years ago, it was decided that all special foreign currency programs governmentwide would be phased out due to reduced availabilities of U.S.-owned foreign currencies. Requesting no further funding for OICD's Foreign Currency Research Program is consistent with that decision.

COOPERATIVE RESEARCH

Question: What current cooperative research would be jeopardized?

Answer: While no additional funding has been requested for the program, all research projects currently underway will continue until completion. These activities will not be jeopardized by this proposal.

QUESTIONS SUBMITTED BY SENATOR BYRD

APPALACHIAN FRUIT RESEARCH STATION

Question: There is increasing public concern over the use of pesticides. Because of the dangers of many pesticides, EPA is reducing pesticide tolerances or cancelling registration of existing chemicals. It is my understanding that scientists at Kearneysville have developed genetic engineering procedures which would allow the introduction of specific genes into existing varieties of fruit. Availability of resistant varieties is the best long-term solution to the problems of pesticides.

The FY 1990 Agriculture and Related Agencies Appropriation bill provided an increase of $150,000 for genetic research on fruit pest resistance at the Appalachian Fruit Research Station, Kearneysville, West Virginia.

What is the current status of that research?

Answer: Those funds are being used to develop new and improved techniques to manipulate genes associated with individual traits of fruit crops. Scientists have isolated genes that regulate fruit ripening in peaches. Introduction of these genes into existing peach varieties will allow growers to ship peaches with increased tree-ripened quality and to ship longer distances without loss of fruit quality. In addition, our scientists have also perfected a new genetic engineering technique to introduce virus-resistant genes into peaches and plums.

Question: What is included in the FY 1991 budget for genetic research at Kearneysville?

Answer: The FY 1991 budget includes $724,000 for genetic research of fruit crops at Kearneysville.

Question: Please provide the staffing levels and dollar amounts at Kearneysville for FY 1989, FY 1990, and projected levels for FY 1991?

Answer: Staffing levels for FY 1989, FY 1990 and FY 1991 at Kearneysville are 46, 48, and 48, respectively. Estimated funding levels for the same years are $3,416,200, $3,561,200, and $3,561,200.

Question: Use of biological control agents on fruit crops has been proven effective in control of postharvest pests of peaches, apples and pears. It is my understanding that scientists at Kearneysville have provided national and international leadership for research on biological control agents on fruit crops. What success has the Kearneysville facility had with this type of research?

Answer: Scientists have had good success with this research. Patents have been applied for in certain cases and an experimental permit has been granted for pilot test studies with one of the biocontrol organisms in commercial packing houses.

Question: What is included in the FY 1991 budget for this type of research at Kearneysville?

Answer: The FY 1991 budget includes $393,400 for this research at Kearneysville.

APPALACHIAN SOIL AND WATER LABORATORY

The FY 1990 Agriculture and Related Agencies Appropriation provided and increase of $150,000 for the Appalachian Soil and Water Laboratory for research on land resource conservation and improved forage-livestock systems.

Question: What is the current status of that research, and what is included in the FY 1991 budget for that research?

Answer: Extramural research on lamb production from forage is being initiated with West Virginia University at Morgantown. Part of the increase supports an intramural project on forage production.

Question: Please provide the staffing levels and dollar amounts at the Beckley facility for FY 1989, FY 1990, and the projected levels for FY 1991.

Answer: Staffing and dollar amounts for the Beckley facility are as follows:

	FY 89	FY 90	Projected FY 91
Amount	$2,802,900	$2,897,400	$2,897,400
Staffing	41	41	41

INTERNATIONAL TRADE DEVELOPMENT CENTERS

The FY 1990 bill provided $575,000 in second year funding for the Center for International Trade Development in Appalachian Hardwood Forest Products at West Virginia University.

Question: What is the current status of that funding?

Answer: A staff of four has been hired and the Center has been involved in promotional activities at several exhibitions and cosponsored a symposium on export trade for hardwood producers.

Question: Does the FY 1991 budget include funding for continuation of the Center?

Answer: No funding is requested for this or any other trade center in the FY 1991 budget.

AQUACULTURE/SPRING AND GROUND WATER RESOURCES INSTITUTE

The FY 1990 bill provided $1,655,000 for the third year of funding to continue a 5-year grant for aquaculture research at the Spring and Ground Water Resources Institute at Shepherdstown.

Question: What progress has been made on the Aquaculture Linked to Plant Culture project at Shepherdstown, West Virginia, toward the development of an integrated aquaculture/agriculture production system for fish and plants?

Answer: All planning, engineering and technological aspects have been completed. The building for the system has been retrofitted and the physical components of the system have been ordered with some components already fabricated and on site. The fish part of the system will be operational and testing will begin by mid-summer.

Question: How do you foresee putting information learned by the Shepherdstown project into practical use? Who will be the primary beneficiaries of this project?

Answer: The main problems of aquaculture as a viable agribusiness are the availability of water, land, and effluent pollution control at point source discharge. Raising fish with small amounts of water on a small land base via re-cycle/re-use and in the process producing clean water through biological filters and plant production systems in itself represents the practical application. The system, once developed, can be applied to a small farm operation for supplemental farm income or scaled up to a large corporate venture; therefore, the primary beneficiaries will be the family farm with a small amount of water and capital or larger ventures with more water and capital for up-scaling.

Question: How are the scientists from the Appalachian Fruit Research Station contributing toward the success of the aquaculture/agriculture project this year?

Answer: The director and two of their scientists have been routinely involved in the planning process and have designed the greenhouse/hydroponics phase for this year. They also have planted and are tending/monitoring a small 80 tree dwarf apple orchard on which the effluent from the fish and hydroponic phase is distributed by drip irrigation and used as fertilizer.

ARS AQUACULTURE PROGRAM

Question: Please outline for the committee the goals and objectives of the current ARS program on aquaculture.

Answer: The current ARS Research Program on Aquaculture is as follows:

Intramural

- Southern Regional Research Center, New Orleans, LA - ecological causes of off-flavor in catfish in pond environments.
- Regional Parasite Research Lab, Auburn, AL - approaches for early diagnosis and control of disease and parasites in catfish.
- Stoneville, MS - breeding and genetics research to improve production traits and disease resistance in catfish.
- Lane (Tishomingo) OK - production system research to improve the efficiency of production of high quality catfish in surface waters in the Southwest.
- Oceanic Institute, Waimanalo, HI - improve the use of feed grains in diets for shrimp and warmwater finfish and diagnosis and control diseases.

Extramural

Conservation Fund

- Shepherdstown, West Virginia - linking high intensity fish culture with plant culture, water conservation and water quality.
- Oceanic Institute, Waimanalo, HI - improve the use of feed grains in diets of shrimp and warmwater finfish.

Question: In what respect does the current ARS aquaculture research program fall short of having a program having sufficient breadth and scope to satisfy national requirements?

Answer: The current ARS aquaculture research program (FY 1990 estimated Appropriation Level, $4,265,300) about equally funded for intramural and extramural research. Research on aquaculture in the United States is being conducted on about 25 species of aquatic animals to enhance their production efficiency and profitability. Aquaculture is usually a broad term that includes the culture of finfish, shellfish, and other aquatic animals and aquatic plants in either saltwater or freshwater and either warmwater or coldwater. Production of aquatic animals and plants as food for humans is extremely diversified.

A national aquaculture program (aquatic animals) should have the following science components and objectives:

- Health
  Improved, diagnostics
  Development of approved therapeutics
  Health management systems
- Genetics and selective breeding
- Selective mating and performance testing
  - to improve production efficiency
  - to improve disease resistance
  - reproductive behavior and endocrinology
  - molecular genetics and molecular immunology
- Reproductive performance
  - broodstock management
- Water/quality/use technology
  - Technology to allow recycling of water in intense systems
  - Bio-engineering
  - Polyculture systems design and testing
  - Ecology system management
  - Rearing and harvesting technology
- Nutrition
  - Nutrient requirements
  - Nutrients limiting growth
  - Improved source of nutrient feed technology
- Product processing and marketing
  - Food Quality
  - Food Safety
  - By-product recovery and processing

The above framework is appropriate for the different species and major problem areas in the different aquaculture industries. The ARS program includes a number of these areas and the universities also fund aquaculture research.

Question: What areas of aquaculture research exists that ARS or other organizations are not doing?

Answer: There is some research being conducted on many of the aquatic animal species used in aquaculture today. There is no assessment on how much research is needed to solve the problems of the rapidly expanding aquaculture industry. A national assessment would be useful, preliminary to developing a national program in aquaculture that would provide leadership and consider national and international aspects of the future development of aquaculture as major producer of food.

Some production problems are:

- Disease - diagnostics and therapeutics.
- Culture system ecology - water use and quality.
- Genetics and breeding
- Nutrient requirements and feed sources
- Food quality and safety

Question: What do you plan to achieve in the fourth year of the project?

Answer: The fourth year we will achieve data collection from the integration of the fish/plant system and start identifying and refining various component efficiencies.

Question: What is the total fourth year funding requirement for work at Shepherdstown and the Appalachian Fruit Research Station?

Answer: The total fourth year funding requirement for work at Shepherdstown and the Appalachian Fruit Research Station is $1,465,000.

Shepherdstown	
Spring and Ground Water Resources Institute	$1,065,000
The Appalachian Fruit Research Station	$ 400,000
Total	$1,465,000

Question: Does the FY 1991 budget include funding for the fourth year?

Answer: Congress directed that FY 1990 funding for the Shepherdstown project be provided from within the increased authorization for groundwater quality research. Since the objectives of this aquaculture project are not included in the priorities for the President's Groundwater Initiative, we have not included these funds in the budget.

WEST VIRGINIA UNIVERSITY/POULTRY RESEARCH

Question: The FY 1990 bill provided the final phase of funding for West Virginia University Poultry Research Facilities. When do you expect to award the $1.5 million provided in the FY 1990 and what is current status of this project, for which funding began in FY 1988?

Answer: The university was provided general guidance on the preparation and submission of the grant application and requested to submit a proposal no later than March 31, 1990. We expect to make the grant award by the middle of May 1990.

A planning grant was awarded in 1988 and a Phase I construction grant was made in FY 1989. The university, working with input of West Virginia Poultry Association and external consultants, has developed a research program plan and employed an architectural firm which is currently working with the university's program committee to finalize the design of the facility. It is anticipated that construction will begin in January 1991.

WATERSHED PROJECTS

Question: The FY 1990 conference agreement included language stating that:

> "The conferees agree to the urgent need for providing funding for the Wheeling Creek, Upper Buffalo Creek, Patterson Creek and Lost river, West Virginia, watershed and flood control projects. As soon as each incremental stage of the projects is available for initiation, the conferees will expect SCS to make the necessary funds available."

How much funding has been provided for each of the above listed watershed projects?

Answer: We funded $2 million for the Patterson Creek Flood Prevention project and $2 million for the Upper Buffalo Creek Small Watershed project in fiscal year 1990. $10,065,000 and $6,507,000, respectively, have been expanded thus far on these two projects.

Question: What is assumed in your FY 1991 budget for the above listed watershed projects?

Answer: Our annual budget request to the Congress is not prepared on the basis of individual watershed projects. However, the budget does propose a 22 percent overall reduction in funding for the Flood Prevention Program, P.L. 534, which includes Patterson Creek and Lost River Watershed; and an 11 percent overall reduction in funding for the Small Watersheds Program, P.L. 566, which includes the Wheeling Creek and Upper Buffalo Creek projects. Each state would likely receive a pro rata share of this reduction. Decisions on funding for individual projects are made at the state level once final appropriations are known.

Question: Please provide the capability for each of the above named watershed projects.

Answer: The remaining federal construction cost for the two Flood Prevention projects is $31 million--$12.5 million for Patterson Creek and $18.5 million for Lost River. This is 2.5 times our usual construciton appropriation for all Flood Prevention projects in 6 states.

It is conceivable that local sponsors will be ready to initiate construction on several increments of these projects during the next years. If so, all available Flood Prevention funds would be obligated in West Virginia with no financial assistance funds available for the Flood Prevention project in 5 other states. West

Virginia would have to forego construction on its 5 other Flood Prevention projects.

The remaining federal construction cost for the two Small Watershed projects is $20 million--$16 million for Wheeling Creek and $4 million for Upper Buffalo Creek. This is one-fourth of our current annual Small Watershed construction appropriation for 366 projects nationwide.

If these increments are ready for funding fin fiscal year 1191 and 1992, work on 10 other Small Watershed projects nationwide would be delayed. Work on 12 other projects in West Virginia would receive no financial assistance.

Delaying construction increases costs of installing Small Watershed projects due to inflation and adds to the unfunded backlog of $1.2 billion of construction in our 366 active small watershed projects nationwide.

Question: What other watershed projects are currently ready for construction or will be ready for construction in FY 1991?

Answer: In West Virginia, Mill Creek Flood Prevention project and Upper Mud River and Howard Creek Small Watershed projects will be ready for construction in fiscal year 1991.

Question: Please provide the capability of each, and the dollar amounts in the FY 1991 budget associated with that capability.

Answer: Sufficient funds will not be available to fund these projects in fiscal year 1991. Expenditures through fiscal year 1989 include $500,000 for Mill Creek, $4,900,000 for Upper Mud River, and none for Howard Creek.

Question: Please provide information on any watershed projects in the State that are currently in the planning stages and the capability of each in FY 1991.

Answer: West Virginia has one Small Watershed project, Lower Mud River, in planning. The Lower Mud River is located in Cabell, Putnam, and Lincoln Counties. The estimated federal cost is $11.5 million. The plan will be completed by October 1990. Construction has not been scheduled pending final agreements with local sponsors on funding, land rights and cost share.

FmHA RURAL DEVELOPMENT GRANTS

Rural Development Grants for water and waste dispoal, rural development, and rural community fire protection have been essential to rural areas.

Question. Please provide a list of grants made to communities in West Virginia, and the associated dollar amounts for FY 1988, FY 1989, and FY 1990. Also include the number of applications received in those fiscal years from communities in West Virginia.

Please provide the number of applications received (nationwide), grants approved, and the dollar amounts associated with each category for FY 1989 and FY1990.

Please provide the same types of information on the Rural Housing Insurance Fund, and Rural Housing Grants.

Answer: Yes, I will provide that information.

(the information follows)

Water and Waste Disposal Grants Obligated In West Virginia, Fiscal Years 1988-1990 (dollars in thousands)

Fiscal Year 1988

Community	Type of Facility	Amount of Assistance
Masontown	Water	$430,000
Marshall County PSD No. 4	Water	260,000
Martin-Harding-Jimtown PSD	Water	120,000
Springfield Water Association	Water	180,000
Tunneltown	Water	600,000
Clay Roane PSD	Water	750,000
Mount Hope City	Sewer	280,000
Hardy County PSD	Water	100,000
Fiscal Year 1989		
Marshall County PSD	Water	113,000
Grant County PSD	Water	121,000
Flatwoods-Canoe Run PSD	Sewer	500,000
Union-Williams PSD	Water	340,000
Beverly, Town of	Water	450,000
Union-Williams PSD	Sewer	125,000
Central Boaz PSD	Water	32,000
Buffalo, town of	Sewer	49,000
East View PSD	Water	80,000
Gandesville PSD	Water	200,000
Mt. Zion PSD	Sewer	350,000
Fiscal Year 1990		
Southern Jackson County PSD	Water	120,000
Ridgely, Town of	Water	343,000
Dorcas PSD	Water	400,000
Short Line PSD	Water	228,000
Hardy County PSD	Water	50,000
Dorcas PSD	Water	256,000
Cottageville PSD	Water	99,000
Hundred-Littleton PSD	Water	80,000
Mannington, City of	Water	730,000
Lashmeet PSD	Water	369,000
Union-Williams	Sewer	185,000

National Number of Water and Waste Grant Applications Received and Dollar Amounts

Fiscal Years 1989 and 1990

	Applications Received	Amount	Grants Approved	Amount
FY 1989	609	$358,696,280	344	$122,698,510
FY 1990*	639	389,537,927	76	76,141,500

* As of March 6,1990.

FmHA Housing Loans and Grants
Fiscal Years 1988, 1989, 1990

	Applications Received	Loans & Grants Obligated	Amount of Assistance
Nationwide			
FY 1988			
Single-Family	157,327	42,579	$1,893,362,890
Multi-Family	507	722	554,934,381
FY 1989			
Single-Family	152,615	43,594	1,894,760,620
Multi-Family	519	759	554,934,381
FY 1990 *			
Single-Family	40,124	14,627	566,402,950
Multi-Family	605	254	170,347,163
West Virginia			
FY 1988			
Single-Family	3,022	886	29,610,900
Multi-Family	10	10	7,094,567
FY 1989			
Single-Family	2,347	806	28,610,640
Multi-Family	8	8	7,309,260
FY 1990*			
Single-Family	615	274	9,759,810
Multi-Family	7	2	1,819,630

*as of January 31,1990

Applications Received and Industrial Development Grants Obligated
Fiscal Years 1988, 1989, 1990

	Applications Received	Applications Funded	Amount of Assistance
Nationwide			
FY 1988	54	27	$6,500,000
FY 1989	115	36	6,500,000
FY 1990*	NA	4	803,000

*as of March 7, 1990

	Applications Received	Applications Funded	Amount of Assistance
West Virginia			
FY 1988	0	0	0
FY 1989	3	1 **	90,000
FY 1990	4	0	0

** serves eight county area (Calhoun, Jackson, Pleasants, Ritchie, rome, Tyler, Wirt, & Wood.

Applications Received for FmHA Community Facility Loans
Fire Related Facilites (not including Ambulances)
Fiscal Years 1988,1989,1990
(dollars in thousands)

Name of Community	Type of Facility	Amount of Assistance
Fiscal Year 1988		
Beaver VFD	Fire Apparatus	$130,000
Benwood VFD	Fire Apparatus	70,000
Elk Dist. VFD	Fire Apparatus	140,000
Jefferson VFD	Fire Apparatus	85,000
Levels VFD	Fire Apparatus	51,000
Pinch VFD Inc	Fire Apparatus	24,500
Pond Creek VFD	Fire Apparatus	40,000
Trap Hill VFD	Fire Apparatus	89,000
Fiscal Year 1989		
Bethelem Fire Dept	Fire Apparatus	100,000
Chesapeake VFD	Fire Apparatus	190,000
Clendenin VFD	Fire Apparatus	35,000
	Fire Dept. Building	100,000
Colliers VFD Inc	Fire Apparatus	60,000
Dunbar, City of	Fire Apparatus	193,000
Gilmer County VFD	Fire Apparatus	125,000
Kenova VFD	Fire Apparatus	44,000
Malden VFD	Fire Apparatus	47,500
McMechen	Fire Apparatus	62,000
Ripley VFD	Fire Apparatus	65,000
Short Creek VFD	Fire Apparatus	58,000
Slanesville VFD	Fire Apparatus	93,000
South Mogan County	Fire Apparatus	132,000
Springfield Valley	Fire Apparatus	28,000
The West Liberty	Fire Apparatus	120,000
Webster Springs VFD	Fire Apparatus	178,000
Fiscal Year 1990		
Sissonville	Fire Apparatus	140,000

OBLIGATED COMMUNITY FACILITY LOANS, WEST VIRGINIA
FISCAL YEARS 1988,1989,1990
(dollars in thousands)

Fiscal Year 1988

Name of Community	Type of Facility	Amount of Assistance
Beaver VFD	Fire Apparatus	$130,000
Benwood VFD Inc.	Fire Apparatus	70,274
Elk Dist VF Co.	Fire Apparatus	140,000
Jefferson VFD	Fire Apparatus	85,000
Levels VFD	Fire Apparatus	51,000
Pond Creek VFD	Fire Apparatus	40,000
Trap Hill VFD	Fire Apparatus	89,000

Fiscal Year 1989

Clendenin VFD	Fire Apparatus	35,000
	Fire Dept. Building	100,000
Colliers VFD Inc	Fire Apparatus	60,000
Dunbar, City of	Fire Apparatus	193,000
Gilmer County VFD	Fire Apparatus	125,000
Kenova VFD	Fire Appartus	44,000
Malden VFD	Fire Apparatus	47,500
Pinch VFD, Inc	Fire Apparatus	24,500
Ripley VFD	Fire Apparatus	65,000
Short Creek VFD	Fire Appartus	58,000
South Morgan County	Fire Apparatus	132,000
Springfield Valley VFD	Fire Appartus	28,000
Webster Springs VFD	Fire Apparatus	178,000

Fiscal Year 1990 (as of March,3 1990)

Bethlehem Fire Dept. Inc.	Fire Apparatus	100,000
Chespaeake VFD	Fire Apparatus	190,000
McMechen VFD Inc.	Fire Apparatus	62,000
Slanesville VFD	Fire Apparatus	120,000

Rural Fire Protection Funding, West Virginia
Fiscal Years 1988 and 1989

FY 1988

Community/Fire Department	Total Funds Received
Waverly	$ 170.00
Stonewood	431.82
Barrackville	1,053.25
South Berkely	180.00
Middlebourne	603.00
Wayne	1,203.00
Reynoldsville	248.00
Masontown	412.00
Mannington	1,890.00
Frame	1,000.00
Ellensboro	858.00
Pine Grove	84.95

Rural Fire Protection Funding, West Virginia
Fiscal Years 1988 and 1989

(Continued)

North River Rio	2,000.00
Green Valley/Glenwood/Glenwood Park	1,550.00
Lakewood/St.Albens	500.00
Community	2,000.00
Frankford	972.75
Cottageville	1,995.00
Leading Creek/Kerens	496.21
Silerton/Ravenswood	1,489.29
Brookhaven/Morgantown	550.00
Jefferson/St. Albans	974.52
Poca	1,050.00
Big Wheeling Creek/Wheeling	1,956.48
Bluewell/Bluefield	2,000.00
Boomer	587.00
Elizabeth	1,729.00
St. Mary's	900.00

FY 1989

Community/Fire Department	Amount of Assistance
Short Gap/Keyser	$1,762.50
Reader	1,528.00
Maysville	600.00
Sisterville	615.00
Logan	1,047.50
Richwood	560.00
Washington District/Buckannon	449.75
Brenton	1,159.50
Ceredo	1,967.50
Wiley Ford	1,800.00
Clay	2,000.00
Augusta	1,872.00
Star City	400.00
Moorefield	2,000.00
Capon Bridge	1,124.36
Anawalt	1,000.00
Huttonsville/Mill Creek	1,630.00
Valley Head	2,000.00
Berwind	1,000.00
Winfield District/Fairmount	934.00
Mullens	990.00
Terra Alta	737.50
Spruce river/Jeffery	2,000.00
Belington	850.00

QUESTION SUBMITTED BY SENATOR CONRAD

FmHA FARM LOAN LEVELS

Question: The 1985 farm bill decreased authorization for direct loan programs and increased authorizations for guaranteed loans. As a result, there has been a dramatic shift from the direct loan program to guaranteed lending, beyond what was authorized in the farm bill. Funding for direct loans has dropped 66% since 1985, and authorizations for guaranteed loans have increased more than 200%. FmHA has obligated nearly all direct loan funds annually, while using only 35% of guaranteed loan allocations. This shift in funding has resulted in a 65% drop in operating loans made by FmHA, and a 59% drop in farm ownership loans made. In 1989, FmHA received three times the number of applications for direct loans as for guaranteed loans. At February 20 hearing of Senator Conrad's Subcommittee on Agricultural Credit, the Administrator of FmHA, Sox Johnson, said he believed that only 5% of FmHA's 203,000 direct loan borrowers qualify for private credit.

> Given this data, do you expect Congress to support the President's FY 1991 budget proposal to slash direct loans by more than 50%?

Answer: The total FmHA farm loan program level has been reduced from $8.1 billion in 1981 to $2.2 billion in 1989. Guaranteed loans have increased from 2 percent of the total in 1981 to 53 percent of the total in 1989. The 1991 budget proposes $2.8 billion in guaranteed loans and $0.6 billion in direct loans, a total program level about 50 percent higher than total obligations in 1989.

The increased acceptance of guarantees provides potential for further reductions in outlays for the direct loan program. The guaranteed program can contribute to reductions in the direct lending program in two ways.

First, private sector borrowers with temporary repayment problems can stay with their current lenders under the guarantee program rather than shifting to direct loans. Second, existing direct loan borrowers can use the guarantee for assistance in graduating from the direct program to commercial credit.

Extension of guarantees to borrowers currently in the direct lending program should increase significantly as the farm economy improves and private lenders begin to expand lending. We also believe the interest assistance program, which allows for a four point interest subsidy paid by the government on the guaranteed loan, will significantly expand the opportunities for graduation by direct program borrowers.

We believe our 1991 budget proposal is consistent with our mission to provide temporary direct supervised credit to beginning and disadvantaged borrowers and, through guarantees, a safety net to other borrowers under financial stress who are otherwise unable to obtain credit from private lenders.

QUESTIONS SUBMITTED BY SENATOR McCLURE

PLANT GENOME MAPPING

Question: What crops will be targeted for research under the Plant Genome Mapping initiative?

Answer: Research under the Plant Genome Mapping program will focus on economically important traits of crop plants, rather than attempting to map the complete gene sequence of certain crops. This will allow scientists to target efforts on the most valuable genetic components which can then be transferred into a variety of crops.

NATIONAL INITIATIVE FOR AGRICULTURAL RESEARCH

Question: Under the National Initiative for Agriculture Research, how will the provision for strengthening grants to smaller, less developed institutions work?

Answer: The Initiative has proposed funding at ten percent to be awarded to strengthen the institutions which do not have well developed research capabilities. Although plans have not been finalized, some of the techniques proposed include: 1) Three year "seed grants" to scientific investigators who have not held a competitive grant for the past five years to enable the new investigator to accumulate data to use in a later application for a competitive grant. This is similar to the National Science Foundation program called Experimental Programs to Stimulate Competitive Research; 2) Allow successful grant recipients at research universities to expand their program to bring in a faculty member from one of the institutions building their research capabilities, as well as minority faculty; and 3) Support post-doctoral and graduate students from the institutions which need to strengthen their programs.

STEEP

Question: An ongoing Cooperative State Research Program --STEEP-Solutions to Environmental and Economic Problems, is incorporating water quality research into its program. Will some of the funds under the Administration's Water Quality Initiative be made available to ongoing programs such as STEEP?

Answer: In Fiscal Year 1990, $4.8 million of water quality funds were awarded to scientists on a nationally competitive basis, with funding distributed on a regional basis. Each of the four regions received $1.2 million to address high-priority regional problems. Scientists participating in the STEEP program have the same access to these competitively awarded funds as other scientists. The program is designed to encourage multi-institutional, interagency cooperation as has been the history of the STEEP program. They were encouraged to compete for awards under the Fiscal Year 1990 program and scientists at the University of Idaho and Oregon State University were successful. Both States are participants in the STEEP program.

DISASTER ASSISTANCE

Question: Under your Federal Crop Insurance Corporation proposal do you plan to include more crops? If so, how quickly?

Answer: We are proposing to replace the crop insurance program with permanent authority for disaster payments to farmers in counties with yields for eligible crops less than 65 percent of normal. Individual farmers in eligible counties would be paid for yields less than 60 percent of the normal county yield, at a payment rate equal to 65 percent of the three year average market price for the crop. The new program would extend to all crops currently covered under the crop insurance program, plus hay and forage. These crops account for over 93 percent of total U.S. cropland. The program could be in place for 1991 depending on Congressional action.

EXPORT ENHANCEMENT PROGRAM

Question: Why are EEP bonuses for Pacific Northwest soft white wheat lower than Mid-west soft red wheat?

Answer: EEP bonuses differ for each foreign country but there is no differentiation between classes, at least not for milling wheat. On any particular day, a foreign country can buy whichever class it chooses and that purchase will be eligible for the same bonus regardless of which class the buyer wants.

That the bonus award sometimes appears to vary among different types of wheat is a result of differing country destinations. For example, some recent sales of white wheat to Asia under the EEP involved a subsidy of about $11 per ton, whereas at roughly the same time there were subsidies for soft red wheat for Mediterranean destinations of about $30 per ton. With the EEP, we are competing primarily with European subsidies. Considering the freight comparisons and the estimated delivered prices of EC wheat to the Asian destination, $11 was all that was required to compete with subsidized EC wheat in that market. Had the purchaser chosen soft red winter rather than white wheat, the bonus would have been the same, i.e. $11 per ton. Similarly, had the Mediterranean buyer taken Pacific white wheat instead of soft red, he would have received a bonus of $30 per ton.

Question: Do you think that this is damaging the market in the PNW and what will you do to make the EEP program more equitable to PNW wheat farmers?

Answer: We believe the current system of EEP purchasing and bonus awards is equitable. Under the EEP, the choice of wheat is left up to the buyer; the Department does not influence that decision. Further, on any given day the same bonus will apply for all classes of milling wheat to a particular country destination.

QUESTIONS SUBMITTED BY SENATOR KASTEN

PERMANENT EASEMENT FOR WETLANDS

Question: In your 1990 Farm Bill proposal, the Department proposes to offer opportunities for producers to give permanent easements for wetlands. Would you elaborate on:

-- how would such an easement program be established?
-- What agencies or organizations would administer enforcement and/or management of the easement?
-- what types of economic uses would be allowed or prohibited on such areas?
-- what criteria would be used to determine wheter a permanent easement or a ten-year contract is offered to the landowner?

Answer: Our 1990 farm bill proposal would extend the current CRP to enable enrollment of cropped wetlands and restorable converted wetlands. A wetland conservation plan will be developed for the landower by the Soil Conservation Service which will identify the econimic uses that will be allowed on the wetland. These activities might include harvesting of timber, haying or grazing during certain periods, hunting or other recreational activities. Any activities that may be inconflict with the protection and restoration of the wetland will be prohibited.

Program rules and regulations will be formulated through the Federal rulemaking process and in consultation with the Secretary of the Interior and the Administrator of the Environmental Protection Agency. We would envision the program operating along the lines of the current CRP with the exception that landowners will have to enter into an agreement to grant a permanent conservation easement rather than a ten year contract. Participants who grant a permanent easement will have the choice of receiving ten annual payments or one up-front payment, not to exceed the fair market value of the property subject to the easement. The program will be administered by ASCS with SCS providing needed technical assistance.

MULTI-YEAR SETASIDES

Question: Mr. Secretary, your proposal for multi-year setasides is progressive. You propose requiring that one-half of the Acreage Conservation Reserve (ACR) be planted to an annual or perennial cover crop each year. What data or rationale can you provide to refute the statement that all ACR should be planted to permanent cover?

Answer: Ideally, we should not have to ask farmers to idle any farmland to reduce surpluses. Our longer term goal is that we become more competitive and that production be sold rather than stored. Achieving this objective will take time, and, meanwhile, the productiveness of the American farmer will dictate that a portion of the land continue to be idled.

Our proposal for multi-year set-asides recognizes the high probability that some land will need to be idled each year and suggests a way to increase the conservation and environmental benefits that stem from the annual programs. From the standpoint of cover establishment and enhanced habitat reliability for wildlife, multi-year programs promise more than annual programs.

However, market conditions each year will dictate the acreage that we will need to have idled. As we are successful in expanding export markets, we should see less and less surplus production capacity and less need to keep farmland idle as ACR. If we were to announce our advocacy of permanent cover for all ACR, we would weaken our negotiating stance at the GATT. To actually implement such a policy would severely reduce farmers' flexibility to respond to market signals.

Our proposal will address environmental needs and will provide for producer flexibility, as well. No more than five percent of the base acreage on a farm may be devoted to multi-year set-asides. If the acreage reduction program for a given year calls for less than a 5-percent reduction, farmers would be able to exceed their base acreage by the amount of land in multi-year cover.

Question: I have heard it suggested that USDA should make available to any farmer who asks on-farm technical expertise on all natural resources on that farm (soil, water, wetlands, wildlife) and technical assistance to integrate farm economic, conservation and environmental objectives. Is such an idea unrealistic?

Answer: No, it is not an unrealistic idea. Farmers need this kind of advice and assistance in order to provide food and fiber needed in this country and around the world at a reasonable and competitive price.

Question: Could USDA deliver on such a program?

Answer: The Department of Agriculture does provide on-farm technical assistance and education programs to farmers who request these services. The Extension Service, ASCS, and SCS are three of the USDA agencies that deliver this assistance within the limits of their budgetary resources and statutory authority. However, the program you outlined may extend beyond the legislative authorities and the flexibility of the laws that are administered by USDA. Jurisdiction over wetlands issues, for example, are determined by the intended use of the wetland, and expert advice needed for that situation may be provided by the Fish and Wildlife Service, the Environmental Protection Agency, and/or a State or local agency rather than by USDA.

CONSERVATION EASEMENTS

Question: Section 1318 of the 1985 Farm Bill allowed for farm debt restructure conservation set-aside easements or "debt for nature" to help keep farmers on the farm and to protect sensitive environmental areas. I understand that we have fewer than a dozen such easements in the Nation. Mr. Secretary, what would it take to make such a program really work?

Answer: The conservation easements program of the 1985 Farm Bill does provide substantial restructuring benefits to FmHA delinquent borrowers. However, the Agricultural Credit Act of 1987 provides a number of other restructuring option of equal or greater benefit to these borrowers.

For example, the easement program provides for a debt writedown equal to the market value of the property, whereas the Agricultural Credit Act provides for a writedown to the recovery value of the property, which is equal to market value less liquidation costs.

Conservation easements may be included in the deeds of properties FmHA sells from inventory. In addition, the Agricultural Credit Act also provides for the transfer of inventory lands to Federal or State agencies for conservation purposes.

QUESTIONS SUBMITTED BY SENATOR SPECTER

SPECIAL SUPPLEMENTAL FOOD PROGRAM

Question: The Special Supplemental Food Program for Women, Infants, and Children (WIC) is recognized by researchers and medical professionals as one of the most successful federal health programs available to those determined to be of nutritional risk. Yet despite these accomplishments, the scope of the program is limited. It is reported that the program reaches fewer than half of the women, infants, and children who are eligible.

With the information available to you, how many women, infants, and children are there in the United States today eligible to participate in the WIC program?

Answer: I would be happy to provide that information to your for the record. The last comprehensive WIC eligibility study, published July 1987, found that in 1984 there were 9.6 million income eligible women, infants, and children. Of the income eligibles, 7.5 million, nearly 80 percent, met nutritional risk criteria and were described as "fully eligible." When information from the 1990 census becomes available to us, we will be updating this information again.

In the interim, our Food and Nutrition Service in its most recent internal update to that study, finds 7 million fully eligible individuals (out of 9 million income eligibles) as of 1986, down 5.8 percent from 1984, due principally to an improved economy.

With 1990 participation projected at 4.6 million, about 60 percent of all eligible women, infants, and children will be reached by WIC, including 90 percent of the pregnant women, and all of the fully eligible infants. Current participation is summarized in the following snapshot. Note that participating infants in 1989 already exceed the 1986 fully eligible estimate, i.e. 1.1 million fully eligible. This may be because, in practice, individual WIC screenings classify more infants as being at nutritional risk than estimated from national health survey data.

Percent of WIC Eligibles Served by WIC

	Fully Eligible in 1984	Fully Eligible in 1986	Actual Participation in 1989	Percent of 1986 Eligible
Women	1,533,000	1,419,000	951,381	67.0%
Infants	1,208,000	1,118,000	1,260,710	112.8%
Children	4,709,000	4,478,000	1,907,315	42.6%
TOTALS	7,450,000	7,015,000	4,119,406	58.7%

Question: Would you also provide me with the number of women, infants, and children eligible for assistance in Pennsylvania?

Answer: As reported in our study "Estimation of Eligibility for the WIC Program", and based upon the 1980 census, the following are fully eligible in Pennsylvania: women: 48,983, infants: 39,783, and children: 156,404.

FOOD STAMP AUTOMATION

Question: I understand that the Food and Nutrition Service currently funds States for the Development and installation of systems at 75 percent of the cost and 50 percent of the cost of operation. What is the Department doing to ensure that States install and operate effective automation of the eligibility determination process?

Answer: All State agencies must sufficiently automate their Food Stamp Program operations. If a State agency has insufficient automation which prevents effective performance, FNS has the authority to require automation. To that end standards, identified by the Secretary to be essential for the efficient and effective management of the program, must be met in order for a State to receive 75 percent enhanced funding. These standards specifically address the eligibility determination and issuance processes.

In addition, regulations published February 7, 1990, and effective May 8, 1990, strengthen the planning, design, development, acquisition and installation of an automated system. The new requirements affecting planning ensure that the automation needs of the State have been fully evaluated and system designs fully explored prior to development.

FNS has also established and maintains open lines of communications with the State agencies throughout the planning and implementation phases of the automated project.

Question: What is the Department doing to ensure that States operate automated systems efficiently and effectively?

Answer: We work to ensure effective performance through our monitoring procedures for program management and operations. We are able to enforce our requirements through the authority we have to disallow funds for automated systems that do not perform according to the approved plan as well as the State liability provisions of our quality control system. Additionally, through periodic reviews we are able to detect problem areas in program performance and request corrective action.

Question: How much has been spent to date in Federal and State funds for the design, development and installation of such systems?

Answer: At the time of the Food Stamp Act Amendments of 1980, Federal matching funding for all aspects of State automation of the Food Stamp Program was at the 50 percent level. The 1980 amendments introduced a higher level of funding for the development and acquisition of automated systems. The enhanced rate of 75 percent, which became effective October 1, 1980, did not extend to the operation of new or existing systems. Matching funding for such expenses continued at the 50 percent level. Only with the introduction of this distinction between development and operation of ADP systems did FNS begin to capture development costs as a distinct cost category. Consequently, we have no data relating to development costs for periods prior to October 1980.

For the period October 1, 1980, through September 30, 1989, approximately $143.7 million in Federal and State funds were spent for the design, development, and installation of such systems. The Federal share during this period was $102.8 million.

Question: How much in ongoing operations?

Answer: For the period October 1, 1980, through September 30, 1989, approximately $671.6 million in Federal and State funds were spent for ongoing ADP operations. The Federal share was $340 million.

Question: I understand that the State of Kentucky has had a measure of success in keeping its Quality Control error rate well below the national average through the use of a highly automated eligibility determination system. What is the Department doing to have other States achieve similar success?

Answer: The State of Kentucky is proud of its success in lowering its error rate and attributes much of its success to its automated Food Stamp system, Kentucky Automated Management and Eligibility System - Food Stamp (KAMES-FS). In a recent audit of State automation of Food Stamp activities, however, GAO said it was unable to relate the lower error rate with the State's automated system, primarily because GAO found that the decrease in Kentucky's error rate occured prior to the KAMES implementation. The State in answer to GAO maintained that the error rate reduction, while achieved prior to KAMES implementation, could not have been sustained without the support of automation. To that argument GAO replied that it was unable to collect data relevant to the issue because KAMES only became operational during the period of the GAO review.

Aside from the issue of the effectiveness of the KAMES project, the Department routinely monitors State automation projects and, in part, this is done to assure the successes in one State will be brought to the attention of other States developing systems. Additionally, our February 7, 1990, regulations on Federal matching of ADP development projects require States planning such a project to consider system transfers from comparable States which have automated systems and if they elect not to transfer an existing system, they must defend that decision. These regulations become effective on May 8, 1990.

WATER QUALITY INITIATIVE

Question: Rural Water supplies and quality drinking water continues to be of concern across the nation. In addition, proper waste control is essential for our nation's rural communities. The Department of Agriculture, under Section 306 of the Consolidated Farm and Rural Development Act, is authorized to provide project grants to rural comunities to address water and waste disposal. Grants are used for water and waste disposal projects to alleviate health hazards and to meet national safe drinking water and clean water standards in rural areas. The Fiscal Year 1991 USDA budget proposes a decrease of 52 percent from Fiscal Year 1990. In light of the costs necessary for proper waste control at the rural area and the Department's recognition of the concern for quality drinking water, how does the Department justify such a decrease in funding?

Answer. Senator Specter, as you correctly point out the Department recognizes the concern for quality drinking water and we believe we are responding to that concern within the budget constraints that both the Administration and the Congress must live with. As you note the budget proposal for FY 1991 is 52 percent below the 1990 level. However, I should point out that the appropriation for this account in 1990 was unusually large. If compared to other fiscal years, the proposal for ficcal year 1991 is only a slight reduction. For example, the funding available for this program is fiscal years 1985 and 1986 was $115 million; in fiscal year 1987 it was $109 million; and in 1988 and 1989 it was about $120 million each year.

LOW INPUT SUSTAINABLE AGRICULTURE

Question: The growing concern for environmental protection has resulted in increased awareness of "low input" or sustainable agriculture practices. In 1985, Congress passed the Food Security Act, which included Agriculture Productivity Research, setting the stage for appropriations since 1988. The result of this spending has produced low input technologies that reduce the farmer's dependence on large amounts of purchased inputs in ways that can increase farm profits, reduce environmental hazards and ensure a more sustainable agriculture for generations to come. The September 1989 National Academy of Sciences report on Alternative Agriculture recommends annual alternative funding research at $40 million.

While I applaud the Department's FY 1991 budget proposal for this important research, do you see the Department moving toward the funding level proposed by the National Academy of Sciences?

Answer: We support research programs which will provide the basis for enhanced environmental quality without sacrificing profitability. Research which might lead to reduced needs for chemical inputs certainly has promise to meet these goals. We are supporting increases for this work, including $1 million within the National Research Initiative and a early 40 percent increase in the special research grant for integrated pest management. At this time, we have not specifically planned for a $40 million per year program.

GYPSY MOTH PROGRAMS

Question: As you know, the Gypsy Moth poses a great threat to many parts of the United States in both recreation park areas and the forestry industry. Reports indicate that a single defoliation can kill some softwoods; two or more defoliations can kill many types of hardwoods. What is the Department doing to ensure the viability of our nation's recreational areas and the forestry industry by treating this pest? What methods of integrated pest management are being used or considered?

Answer: USDA programs have been implemented to help mitigate gypsy moth damage and the spread of the gypsy moth. Suppression programs are carried out to reduce gypsy moth damage, eradication projects are conducted to eliminate isolated infestations, and a quarantine is maintained to regulate the movement of the gypsy moth by people. Research is conducted to find better ways to cope with this insect. Extension and other education programs communicate essential information to the public.

Five USDA agencies are involved in work on the gypsy moth. These are the Animal and Plant Health Inspection Service (APHIS), the Agricultural Research Service (ARS), the Cooperative State Research Service (CSRS), the Extension Service (ES), and the Forest Service (FS). Each agency has a distinct role in delivering the Department's gypsy moth program. This program is coordinated by a formal USDA working group led by the FS.

In 1989, about 800,000 acres of Federal, State and private land were treated as part of the FS gypsy moth suppression program. The agency also carried out four gypsy moth eradication programs to eliminate large isolated infestations in Idaho, North Carolina, Utah and Virginia. The total cost for these suppression activities and eradication activities was about $8.6 million in 1989. In 1989 APHIS cooperated with the States in 32 eradication programs involving small isolated infestations in California, Idaho, Illinois, Indiana, Iowa, Michigan, Minnesota, North Carolina, Ohio, South Carolina, Utah, Washington and Wisconsin.

In the gypsy moth suppression program, both biological and chemical insecticides are used in thee spring to protect tree foliage and reduce gypsy moth populations. Dimilin, a chemical insecticide that disrupts insect moulting, and Bacillus thuringiensis or B.t, a bacterial insecticide are the primary pesticides used in the suppression program. Gypcheck, a biological insecticide with the gypsy moth nuclear polyhedrosis virus as its active ingredient, is also used, but on limited acreage because of production and cost problems.

In the eradication program, multiple applications of dimilin or B.t. may be used to eliminate the gypsy moth population. Mass trapping using pheromone baited traps is commonly used to eradicate small isolated gypsy moth infestations. Applications of insecticide may also be followed up with mass trapping to eliminate the remaining population. Release of sterile gypsy moth life stages has also been successful in eradicating isolated gypsy moth populations, but current use of this tactic is limited by production and other problems.

The FS, APHIS, ARS, and CSRS research and methods development programs continually work to improve the effectiveness of gypsy moth management. Work is currently under way to solve the Gypcheck and sterile insect production problems. Improvements are also being made in aerial application technology to make insecticide application more efficient and effective. New insecticides and new formulations of those presently in use are under development. Improved gypsy moth population monitoring techniques are being tested, as are techniques to manage low level gypsy moth populations. Biological control research is being conducted and silvicultural techniques to make the forest less susceptible to gypsy moth damage are being researched. All of these new gypsy moth management methods will be considered when they are ready for operational use. The goals are to make gypsy moth management easier, more effective, and more environmentally benign.

QUESTION SUBMITTED BY SENATOR BURNS

AGRICULTURAL PROGRAM SPENDING

Question: Currently the federal budget is $1.2 trillion with approximately $50 billion allocated to agricultural program spending. Of that amount, less than $10 billion has been allocated to programs that directly affect farm income. Agriculture is the largest industry in the United States, directly, or indirectly affecting the job security of over 20 percent of our workforce. Many of those jobs are located in the great heartland of this country which has not enjoyed the degree of prosperity enjoyed by areas on both coasts.

If events in foreign countries continued to lessen the threat to our domestic security then there may be a reordering of our federal program spending. Given that the top priority should be deficit reduction, what are you doing, as the representative of our nation's farmers to develop contingency plans to ensure that rural America benefits from any so-called "peace dividend?"

Answer: The magnitude and timing of any "peace dividend" is still conjectural, as you know. To the extent that opportunities develop to reallocate federal spending, I agree with you that deficit reduction warrants top priority. The benefit to rural America from successful deficit reduction should be substantial. This would be conducive to lower interest rates and other more favorable economic conditions for farmers and rural businesses. For example, a reduction in interest rates of one percentage point could reduce farmers' annual interest expenses roughly $700 million a year. That's only a small part of the potential benefit.

I believe we need to look at the emerging developments in Eastern Europe and elsewhere in much broader terms than just whether or not there will be reductions in defense spending that could be reallocated to deficit reduction or to spending programs in agriculture or other important areas. The ultimate "peace dividend" which I'd like to focus on is the potential for expansion in economic growth in these countries and the opportunities which could emerge in the future for expanding our markets for agricultural products. The full implications of current foreign developments for economic growth and trade are, of course, still uncertain, but the Department is monitoring developments closely. And we're doing our part to assess how to assist countries currently in need. In the long run, the potential for economic growth in these areas and elsewhere as a result these developments could provide U.S. agriculture with new market opportunities bringing benefits far more significant than any marginal increase in farm program spending which we might be able to obtain through bidding for a part of any reduction in defense spending. The real "peace dividend" is potentially much bigger, and that is where I intend to focus the attention of the Department and others. We need to look for the opportunities these events provide to stimulate economic growth and trade and to provide U.S. agriculture with the opportunities to benefit from that.

SUBCOMMITTEE RECESS

Senator BURDICK. This concludes today's hearing. The next hearing will be held on Friday, March 2, at 1 p.m., in this same room. At that time we will review budgets for the Agricultural Research Service, the Cooperative State Research Service, and the Extension Service.

The subcommittee stands in recess.

[Whereupon, at 3:25 p.m., Wednesday, February 28, the subcommittee was recessed, to reconvene at 1:07 p.m., Friday, March 2.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1991

FRIDAY, MARCH 2, 1990

U.S. Senate,
Subcommittee of the Committee on Appropriations,
Washington, DC.

The subcommittee met at 1:07 p.m., in room SD–138, Dirksen Senate Office Building, Hon. Quentin N. Burdick (chairman) presiding.

Present: Senators Burdick, Adams, and McClure.

DEPARTMENT OF AGRICULTURE

STATEMENT OF CHARLES E. HESS, ASSISTANT SECRETARY FOR SCIENCE AND EDUCATION

ACCOMPANIED BY:
- HARRY C. MUSSMAN, DEPUTY ASSISTANT SECRETARY, SCIENCE AND EDUCATION
- ROBERT E. SHERMAN, BUDGET OFFICER

Agricultural Research Service

STATEMENT OF R. DEAN PLOWMAN, ADMINISTRATOR

Cooperative State Research Service

STATEMENT OF JOHN PATRICK JORDAN, ADMINISTRATOR

Extension Service

STATEMENT OF MYRON D. JOHNSRUD, ADMINISTRATOR

INTRODUCTION OF WITNESSES

Senator **Burdick**. Good afternoon, ladies and gentlemen. Today we continue our hearings on the fiscal year 1991 budget for Agriculture, Rural Development and Related Agencies.

Today we will receive the budgets for the Agricultural Research Service, the Cooperative State Research Service, and the Extension Service.

Our witnesses are Charles E. Hess, Assistant Secretary for Science and Education; R. Dean Plowman, Administrator, Agricultural Research Service; John Patrick Jordan, Administrator, Cooperative State Research Service; Myron D. Johnsrud, Administrator, Extension Service—from North Dakota; and Robert E. Sherman, Budget Officer, USDA.

We welcome you all.

As a broad overview, in comparison to 1990 funding, I note the budget for ARS is increased by almost $60 million, including an increase of $22 million for buildings and facilities. The budget for CSRS increases by $9 million in program funds, but is reduced by $45 million in buildings and facilities. And the Extension Service budget is down by $23.5 million.

We have statements from each of the agencies and the Assistant Secretary. They will be made a part of the record in full.

Dr. Hess, I will ask you to make your oral statement, after which we will entertain questions from the subcommittee for each of the agencies.

Dr. Hess.

STATEMENT OF DR. CHARLES E. HESS

Dr. HESS. Thank you very much, Senator Burdick.

I appreciate the opportunity to present our science and education budget proposals for 1991.

First, I would like to introduce to you, Senator Burdick, Dr. Harry Mussman, who is Deputy Assistant Secretary. You may remember Harry who, in a previous role, had served as the Administrator for the Animal and Plant Health Inspection Service. Dr. Mussman, in addition to serving as Deputy Assistant Secretary, is coordinating our water quality initiative activities in the Department and among the various agencies that participate in this.

Mr. Chairman, if I may, I will give an overview since you have accepted the written testimony for the record.

American agriculture is in a unique position in our history. We have one of the best food and fiber systems in the world in terms of the consumer. The average citizen spends 11.8 percent of their disposable income for food, one of the lowest in the world.

However, agriculture is facing serious challenges. Our society is increasingly concerned about issues that deal with food safety, the role of diet and nutrition in health, environmental issues, such as water quality and global climate change. We are concerned about farm income, quality of life in rural communities, and competitiveness in the world markets.

We are concerned about attracting young men and women into the agricultural sciences and increasing the diversity of that pool.

We believe that many, if not all, of these challenges can be addressed through a new investment in science and education.

NATIONAL INITIATIVE IN RESEARCH

The National Academy of Sciences in its report, "Investing in Research: A Proposal to Strengthen the Agricultural, Food and Environmental System," recommended a bold, new competitively funded research program, addressing six major areas of research and using four funding strategies. The report recommends a new investment in research and education of $500 million per year.

This report forms the basis for the National Initiative for Research on Agriculture, Food, and the Environment, which is the centerpiece of our 1991 budget proposal.

At a proposed 1991 funding level of $100 million, the initiative would provide funding in four major areas: natural resources and the environment, at $15 million; nutrition and food quality and health-related areas at $5 million; plant systems at $50 million; and animal systems at $30 million.

At your desk I believe is a program plan which has been prepared by the Department, which gives some detail in terms of the research plan at this initial funding level. With congressional support for these proposals, the administration is committed to an annual increase of $50 million per year for this program. We have shown an example of how those funds might be used as we increased from the initial $100 million.

Our goals for such an investment include increased production efficiency, not necessarily more, but producing at lower costs. We would also look at new product development, such things as kenaf, crambe, and rapeseed. We think that these will help increase farm income through diversified production systems, optimizing inputs and reducing risk, such as through increasing drought tolerance of our crop plants.

We think that through increased farm income, this will help enhance the quality of life in rural communities, and through research in health and nutrition areas, that we can improve health and food safety.

We also wish to enhance the stewardship of our environment more effectively using agricultural chemicals and pesticides and through programs such as the Integrated Pest Management Program, and through developing genetic resistance to insects and disease. We think that this will help improve water quality.

We also wish to work on the reduction of greenhouse gasses. I see that agriculture can play an increasingly important role as a source of industrial hydrocarbons. We also think by an increased investment, we will increase the size and the diversity of the science base.

A unique feature of the National Research Initiative is the funding strategies—individual research grants, which many people feel form the basis for U.S. science. But then we also have multidisciplinary research grants, which will allow many scientists of different disciplines to come together to work on a problem that is important to agriculture.

We have mission-linked grants, which allow us to target specific research areas that are important to agriculture, such as the plant genome study, in which we will look for the genetic basis of agriculturally important traits.

We have also a fourth category called strengthening grants, recognizing that some universities and individuals have not been as successful as others in competing for grants. We wish to increase and enhance their ability to be able to compete.

We have many challenges. But we also have tools to address these challenges, through biotechnology, through computers, and through new instrumentation.

We are pleased that the budget proposal also provides funds in addition to the National Research Initiative to strengthen the base of the science and education system we have developed over the years.

OTHER FISCAL YEAR 1991 BUDGET PROPOSALS

Therefore, increases are proposed for CSRS programs, the Hatch Act and the Evans-Allen program at the 1890 institutions to help these institutions offset increased expenses and retain the capacity to compete for grants in priority areas.

In addition, we are requesting $25.6 million for special grant programs to continue research of priority national interests.

Similarly, we have included an increase for base extension programs—Smith-Lever and the 1890 institutional funds.

I would like to highlight a few other areas of the project. The Agricultural Research Service and the Federal laboratories represent a significant part of our research base. An area of national interest is the Plant and Animal Germplasm Program. We have new techniques to move genes. We must be sure that we have the genes to move.

I want to emphasize my strong support for the request of $4 million in order to start construction of the new seed storage laboratory at Fort Collins, truly a national treasury which will be used by scientists around the world and around the United States.

We are also requesting $28.6 million for three other construction projects associated with the Agricultural Research Service including additional funds for modernization at Beltsville, which is critically needed; a replacement of a fruit and vegetable laboratory in Yakima, WA; and an addition to the poultry research laboratory in Athens, GA.

I mentioned how I believe that the National Research Initiative will help indirectly attract men and women into the agricultural sciences and to increase the diversity of that pool. We also propose to directly address this challenge facing our Nation by recommending increases in most of our higher education programs, including the 1890 Capacity Building Grants Program, which was initiated with the help of this committee last year.

One of the great strengths and indeed uniquenesses of the U.S. science and education system is the Extension Service. Unlike any other nation in the world, we have a technology transfer capacity built right into our research and teaching institutions, the land-grant universities.

Not only does this serve as a transfer mechanism to put new knowledge to use, but it also serves as a feedback mechanism in which problems at the user level can be brought to the attention of the researchers and teachers, assuring a relevance of the research and teaching programs.

I mentioned our recommended increase in Smith-Lever. I also want to highlight two other programs in the Extension Service. One is an increase of $10.3 million for water quality education and coordination with the President's Water Quality Program. We want to put the best, environmentally sound, profitable farm and range management practices into use. Prevention is the best approach to insure ground water quality.

YOUTH AT RISK

Extension youth development programs have a rich history of providing leadership and citizenship qualities and providing practical education in nutrition, agriculture, and many other areas.

In recent years, some of our State extension programs have begun to address concerns with youth at risk—children who are at the risk of failure because of inadequate supervision, such as the latchkey kids or single parent families, or such things as poverty, presence of drugs, and other factors.

We propose a $10 million program, a matching grant program, to support a comprehensive and intensive program, including significant efforts on early childhood development. If we can enhance the chances for success of our youth at risk, this investment will be returned many times to society.

One of the basic resources of the science and education system is the library. Mr. Joe Howard, the Director of our National Agricultural Library, is here with us today. We feel that it is one of the finest agricultural libraries in the world.

We have proposed an increase to cover the increased costs of obtaining foreign scientific literature. We are not the only ones in the agricultural research and teaching business, and we need to share that information from overseas.

We also wish to continue improving the electronic data handling systems the National Agricultural Library has developed to coordinate the library network among the National Agricultural Library and the land-grant university libraries.

Mr. Chairman, as my first year as Assistant Secretary draws to a close, I am tremendously impressed with the dedication and talent of the research, teaching, and extension professionals in science and education, and am inspired by the challenges that we face.

We clearly have an opportunity to bring the most advanced technologies to bear on long-term and emerging challenges in food, agricultural, and environmental sectors. It will demand a commitment of new resources and a clear focus on the highest national priorities.

We have worked hard on developing our programs and budget proposals, and we look forward to working with Congress, with you, to achieve our shared goals.

PREPARED STATEMENTS

Thank you very much, Mr. Chairman. I will be glad to answer questions from the committee.

[The statements follow:]

STATEMENT OF DR. CHARLES E. HESS

Mr. Chairman and members of the Subcommittee, I appreciate this opportunity to present to you our research and extension budget proposals for 1991. First, as many of you know, Dr. Harry Mussman is the Deputy Assistant Secretary for Science and Education. Many of you know Harry from his former service as Administrator of the Animal and Plant Health Inspection Service. Soon after he was appointed Deputy Assistant Secretary, Secretary Yeutter placed him in charge of the Working

Group on Water Quality to coordinate our water quality programs Departmentwide. He is serving in that capacity along with his responsibilities as my deputy.

NEW OPPORTUNITIES IN AGRICULTURAL RESEARCH

Mr. Chairman, I am pleased to present to the Committee a research budget that is nearly 5 percent above the 1990 level. Your Committee has been a strong supporter of agricultural research over the years and you have witnessed the revolution in understanding of biological systems. As we enter the 1990's we truly have the opportunity to further, and rapidly apply, our expanding knowledge in plant and animal systems. A recent report of the National Academy of Sciences provides a wealth of information on the possibilities for the application of modern technologies to the agricultural sector. That report, "Investing in Research: A Proposal to Strengthen the Agricultural, Food and Environmental System," forms the basis for an important component of our budget which I would like to highlight for the Committee.

NATIONAL INITIATIVE FOR RESEARCH

More than a century of research through the land-grant universities and research at our Federal labs has blessed us with a dependable food and fiber supply at reasonable cost and has enabled the United States to be a leading exporter of agricultural products. At the same time, it is increasingly clear that farmers, ranchers and consumers of agricultural products are faced with problems which cannot be addressed with our current state of scientific knowledge. While we have overcome countless hurdles to profitable production through research, we continue to face threats from pests and diseases, drought and other weather extremes and increasing concern that modern farming practices are a potential source of environmental damage. It is imperative that a National effort be launched to solve these problems as the means to retain American competitiveness in world markets, maintain a strong rural economy and make certain that our production practices allow farmers to be good stewards of land and other resources.

Mr. Chairman, we propose to address the need for additional research and extension through a balanced set of program proposals that support our existing Federal and state research system and enhance the ability of all capable scientists to contribute to agricultural research. A new National Initiative for Research on Agriculture, Food and Environment is the centerpiece of our 1991 budget. At a proposed 1991 funding level of $100 million, the Initiative would provide competitively awarded grants for basic and applied research in topics identified by scientists, producer organizations and policymakers as critical to the continued profitability and competitiveness of our agricultural and natural resources sectors. With Congressional support for these proposals, the Administration is committed to annual increases of $50 million for this program of competitively awarded grants.

I would like to highlight a few key points for your consideration as the Committee deliberates on the request. First, I want to emphasize that the Initiative will fund research which has as a central focus the development of solutions to agricultural and related problems—those faced directly by producers and consumers of food and fiber. Certainly, some of the work will be basic science that, at first glance, might appear only remotely related to problems in the field. It is this work, however, that will provide the underpinning for applied projects to develop specific solutions, and it is in this area that researchers and producers increasingly recognize a need for greater progress.

Second, while the program will fund a strong component of basic science, funds will also be available for "applied" research to translate science into solutions. Certain projects will be carried out through multidisciplinary teams as a means to bring an appropriate range of talents to bear on specific issues. For example, with a multidisciplinary approach, we can bring the talents of soil scientists, weed scientists, entomologists and others together to develop improved, sustainable production systems with benefits for the environment and producer profitability.

Third, we recognize that the scope of the research to be conducted requires the availability of a broader range of talent than has traditionally been strongly represented in the competitive grants programs. Certainly, the proposed increase in the size of the program would have the effect of involving more institutions, but we believe that specific steps should be taken to assure that institutions across the spectrum are full contributors to solving problems in agriculture. Therefore, we have included provisions to strengthen the capability of traditionally less competitive institutions to compete for grants through the program. Our proposal is to make ten percent of funds available for these strengthening grants.

Finally, I would note that we intend to administer the Initiative through a Board of Directors composed of the Assistant Secretary for Science and Education and the administrators of the Agricultural Research Service, the Cooperative State Research Service, the Extension Service, the National Agricultural Library, the Forest Service, the Economic Research Service and the Chief Scientist of the Competitive Research Grants Office. This structure will assure coordination with the ongoing programs of agricultural and natural resources research. Extension representation on the Board will assure a direct feedback from users of research to keep a sharp focus on needs at the technology transfer level. This is only an overview of our proposal and we look forward to working with the Committee on this important proposal.

SUPPORT FOR ONGOING PRIORITIES

Success of the Initiative and all of our proposals rests on the strength of the system of agricultural research we have developed over the years. It is the readiness of this system to tackle problems of a National and regional nature that has enabled American agriculture to overcome challenges and remain profitable. We recognize that any plan that does not provide adequate support for this research base will not be successful in the long term. Therefore, increases are proposed for the Hatch Act and 1890 Institutions programs to help these institutions offset increased expenses and retain the capability to compete for grants in priority areas. In addition, our request includes $25.6 million for special grant programs to continue priority National interest grants. Dr. Jordan can provide additional details.

Our Federal labs represent a significant part of the base program of agricultural research. We look to ARS particularly to conduct research in areas of National interest, which generally requires significant commitments of resources over many years. Prime examples of this type of work include animal disease and plant and animal germplasm programs. ARS maintains the Nation's base collections of plant germplasm and we are proposing increases to strengthen that program, which is operated to the benefit of all performers of agricultural research. It is the immediate availability of that extensive collection which provides the basis to quickly address new pest and disease problems, such as the Russian wheat aphid and allows breeders to incorporate value-added traits into varieties. In this regard, I also want to emphasize my strong support for the request of $4 million which we need before we can initiate construction of the new Seed Storage Lab in Fort Collins. The existing lab is literally bursting at the seams and any delay would place at serious risk an irreplaceable National genetic resource. I urge your support of our modest request for full funding for this project.

ARS's long experience in the germplasm area places the Agency in a unique position to manage a program of plant genome mapping for which funds are included in the research Initiative and in the ARS budget. It is a successful plant genome mapping effort which will truly make our genetic collections most useful to geneticists who will have the ability to quickly transfer identified genes into desired species. Mr. Chairman, we are in an exciting era in research, with new tools available to researchers only imagined a few years ago. Benefits will accrue only if we seize this opportunity to invest for the long term.

Issues in food safety are increasingly in the forefront of concern among consumers of agricultural products, both in domestic and foreign markets. The aflatoxin situation exacerbated by last year's drought caused concern among foreign buyers of American grain. American consumers are concerned with food safety issues ranging from mycotoxins and microbial contamination to pesticide and drug residues. In view of increasing recognition of the potential dangers, farmers need to be provided with the means to eliminate these hazards from products, and advances in science will provide regulatory agencies with new approaches to speed the analytical basis to detect these problems. Our budget includes a proposal to increase ongoing ARS programs in these areas by $10.8 million in conjunction with a broader food safety initiative being proposed by the Department.

PROVIDING ADEQUATE RESEARCH FACILITIES

A final note in my comments on the ARS budget. Scientific advancement will come only with the appropriate resources—and that includes physical facilities in addition to the scientists inside those facilities. As the Committee is aware, many of our Federal agricultural research facilities are 30 or more years old—the four major utilization labs are celebrating their 50th anniversaries this year. ARS has embarked on a plan to upgrade all its facilities to meet basic codes, with broader modernization efforts targeted at the highest priority labs. In addition to the Seed Storage Lab project I mentioned, the Agency is proposing $28.6 million for three other construction projects. Funds would be provided for additional modernization at Beltsville, Maryland, a replacement fruit and vegetable lab in Yakima, Washington, and an addition to the poultry research lab in Athens, Georgia. Each is important to our ability to conduct the most advanced research to solve specific problems. Certainly, it is difficult to commit large blocks of resources to individual projects in these constrained budget times. But I must emphasize that we cannot begin construction until full funding is approved and an obligation can be made for the full project. Mr. Chairman, I look to your leadership in assuring that these priority projects are fully funded to avoid costly delays from the standpoint of time and dollars lost to cost escalation.

DEVELOPING SCIENTIFIC TALENT

Challenges we face in agriculture demand a highly skilled workforce with an understanding of agricultural and natural resource sciences. At the same time, we have witnessed declines in the numbers of students choosing these as major fields of study. Of particular concern is the need to increase the diversity of students in agriculture. Much has been said about these concerns, but it is essential to provide resources to effect a positive change. Mr. Chairman, I am pleased to present a budget with increases in most of our major higher education programs, including the 1890's Capacity Building Grants program being initiated in 1990 with the support of your Committee. Along with an increase in Federal funding, we are proposing a full matching requirement, building on an indication that there is a favorable response to matching as encouraged by the Committee in the 1990 program.

PLACING SCIENCE IN ACTION THROUGH TECHNOLOGY TRANSFER

Our best science is a failure if it remains on the shelf. Certainly, our history of success in applying agricultural research can be attributed largely to an effective system of technology transfer and education, primarily through the Cooperative Extension System. Just as the basic research system is important, we consider support for base extension programs to be a high priority and we have included increases for the basic Smith-Lever and 1890 Institutions formulas to help offset higher costs. In addition, we are proposing targeted programs to support meritorious projects in the highest National priorities. This combination reaffirms the Federal commitment to the partnership while helping local Extension personnel address issues which the Nation faces as a whole.

Building on the base initiated with your support in the 1990 budget, we are proposing a $10.3 million increase for water quality education in coordination with the President's initiative. Additional funds will allow Extension to continue projects to demonstrate environmentally-sound, profitable farm and ranch management practices begun during 1990 and expand those programs to reach producers in more areas. Working closely with the Soil Conservation Service, Extension will initiate comprehensive programs in 37 additional hydrologic units and eight new demonstration areas. Funds are also requested to assure that field level Extension personnel are fully trained to effectively deliver the programs.

A NEW ROLE FOR EXTENSION YOUTH PROGRAMS

Extension has a long history of working with youth—developing leadership and citizenship qualities, providing practical education in nutrition and agriculture and other areas. In recent years, certain state Extension programs have begun to address concerns with youth at risk—children who are at risk of failure because of inadequate supervision (e.g. latchkey children, single parent families), poverty, presence of drugs in neighborhoods and other factors. There is a need to bring a National focus to these programs and provide a stable commitment of resources to develop the highest quality programs in targeted areas. Extension proposes $10 million for grants to support comprehensive and intensive programs including significant efforts on early childhood development. A key aspect of the programs is a requirement for full matching with state or private resources with a further 50 percent match at the local level to assure the full involvement and commitment of local leaders to the projects. The proposal has received full support within the Administration and I look to the Committee to support this important request which will target a serious National problem.

STRENGTHENING AGRICULTURAL INFORMATION PROGRAMS

America is clearly a leader in many fields of science, but increasingly foreign scientific developments are advancing the cutting edge of scientific investigation in a broader range of fields. We cannot afford to slip behind as a result of not keeping pace of these developments. However, important foreign scientific literature is becoming expensive because of exchange rate fluctuations and the inflation in scientific literature costs which is well above general inflation rates. We look to the National Agricultural Library to provide the base collection of literature in the agricultural and related sciences. We are proposing increases in the NAL budget to offset the effects of inflation on acquisition of scientific literature and to continue funding the development of a network of agricultural collections. NAL and the university libraries can achieve savings through a cooperative network by avoiding duplication in a number of basic library functions and by relying on special collections at certain institutions through sharing arrangements.

CLOSING REMARKS

Mr. Chairman, as my first year as Assistant Secretary comes to a close, I am impressed with the dedication and talent of the research and extension professionals and inspired by the challenges we face. We clearly have the opportunity to bring the most advanced technologies to bear on long term and emerging challenges in the food and agriculture sector. It will demand a commitment of new resources and a clear focus on the highest National priorities. We worked hard on developing our program and budget proposals and now we look forward to working with the Congress to achieve our shared desire to advance American competitiveness and profitability for farmers and ranchers. This concludes my prepared remarks. I will be pleased to respond to questions from the Committee.

STATEMENT OF DR. R. DEAN PLOWMAN

Mr. Chairman, Committee members, and staff. Today, I will report on the overall state of the Agricultural Research Service (ARS). I will review the progress we made during the past year and highlight our concern for the future. And, of course, I will present and explain our program and budget recommendations for the coming year.

THE STATE OF THE AGRICULTURE RESEARCH SERVICE

As you know, the mission of ARS is to conduct research to solve problems encountered by agricultural producers and consumers of farm and ranch products. We have completed a successful year. Included in the accompanying Explanatory Notes are more than 60 examples of important research completed last year in the plant and animal sciences, natural research conservation, post-harvest applications, and food safety and nutrition.

For the record, here are what I consider to be our most important achievements last year:

—ARS delivered the WEPP (Water Erosion Prediction Project) computer model, which estimates erosion on agricultural lands, to the Soil Conservation Service, Forest Service, and Bureau of Land Management for field testing. This model will help farmers produce crops without excessive erosion. It will also help us better understand the long-term impact of erosion on soil productivity and water quality.

—ARS scientists, in cooperation with Iowa State University and the University of Illinois, imported 144 Chinese pigs of three unique breeds. These Chinese breeds will be crossed with U.S. breeds to increase litter size, and still maintain the lean yield and quality of U.S. pork.

—Our engineers developed an objective method for evaluating wheat hardness. This is essential to grading wheat by the Federal Grain Inspection Service as well as the orderly marketing and exportation of this commodity. This new method provides the first objective nationwide evaluation of wheat hardness, and it can be used to develop data on the effects on hardness of variety, growing conditions, and environment.

—Using sperm separation techniques, our animal scientists predetermined the sex of rabbit and swine offspring with at least 75 percent accuracy. This breakthrough moves us closer to a practical method for controlling the sex of livestock.

—Ambersweet, a new orange hybrid developed by ARS scientists, was released for commercial planting. It appears to be cold hardy and therefore could be a major factor in helping Florida growers recover their markets after freezes such as we had this winter. Juice from this hybrid exceeds color standards for Grade A juice and can be mixed with other domestic juices that don't quite make that grade.

—Fluffy cellulose, a patented, high-fiber, non-caloric food additive developed by ARS scientists, was named one of the year's top 100 commercialized inventions by the prestigious Research and Development magazine. Fluffy cellulose is used in bread and pastry. It has been licensed to two firms which manufactured it in rural midwestern communities.

—ARS researchers have isolated strains of a natural soil microorganism that suppresses wheat take-all disease. Take-all has become the Nation's most damaging wheat root disease, affecting up to 13 percent of all wheat crops in the Pacific Northwest. At least three major biotechnology firms are considering commercializing this discovery.

There are other ways in which we can assess the state of the Agency: progress in renovation and construction of facilities, support of action agencies, and employee productivity.

A major study of needs at our Beltsville Agricultural Research Center, the Agency's largest laboratory complex, is nearly complete. It has identified several necessary alterations and new construction projects. Additional funds for these projects are requested in the 1991 budget, and I will discuss these in detail later. In 1989, we dedicated a major new laboratory—the Plant Molecular Biology Laboratory—and established a new Climate Stress Laboratory at Beltsville. We are proceeding with renovations using money appropriated by Congress last year.

We have other progress to report from last year. most notably the completion and dedication of our new Soil Tilth Laboratory at Ames, Iowa.

Facility renovation and construction continue to be among our highest priority needs, and I will address this matter later in my statement.

I have already mentioned two very important products that ARS scientists delivered to action agencies. There are other examples, including these:

(1) Lactose—milk sugar added to poultry drinking water reduces the incidence of Salmonella infection in chickens. This discovery directly supports the work of the Food Safety and Inspection Service.

(2) New tools for accurate, more effective detection of brucellosis and anaplasmosis have been found to directly support the Animal and Plant Health Inspection Service (APHIS).

Finally, Mr. Chairman, I believe there has been significant improvement this past year in the skills, productivity, expertise, and capabilities of scientists, support personnel, and management throughout the Agency. I have sensed a strengthening within ARS that results from our hard work, a feeling of accomplishment, pride in the organization, and a sense of realizing one's full potential among our employees.

For all of these reasons, I am comfortable in asserting the fundamental soundness of the Agricultural Research Service.

MAJOR CONCERNS

Yet concerns remain. Chief among these is the need to continue support for our core programs that are significant and critical to American agriculture but that fall outside today's newly identified priority needs. For several years we have been able to adjust our activities and retain support for these important programs through improved operating efficiencies, by terminating less important research, and by closing more than 31 locations since 1979. Now, because of the continued need to preserve these important core programs and to retain our responsiveness to address emerging, more complex and costly requirements we need to make additional adjustments. We can no longer do everything we are doing, and we want to continue doing only research that we can do thoroughly and well.

I have asked my staff to analyze and prioritize our entire program and as circumstances and opportunities arise we will make some adjustments. The highest priority research will be preserved. Naturally, we will advise the Committee of our intent before actions are taken.

FY 1991 BUDGET RECOMMENDATIONS

The ARS program budget request for FY 1991 is $623,510,000, or 6.4 percent over the current fiscal year. We have asked for specific increases in three major areas: environmental quality, food quality and safety, and efficiency and profitability of farming. The building and facilities request is for $32,600,000.

ENVIRONMENTAL QUALITY (+$14,815,000)

This increase will fund research in two areas of national concern—groundwater contamination and global change.

We will conduct research to understand and minimize the impact of agricultural chemicals on our water resources. This research is an integral part of the Presidential Initiative on Enhancing Water Quality. We will emphasize studies of chemical and biological degradation, mobility and leaching, and volatilization and plant uptake of agricultural chemicals. We will develop crops that use nitrogen fertilizer more efficiently, thereby minimizing potential nitrate pollution. Research on the movement of chemicals in soil will stress development of better farming strategies.

We also need to evaluate both the impact of projected global change on agriculture and whether agriculture contributes to global change. The proposed research will focus on physical, chemical, and biological processes linking agriculture and global change. Our intent is to ensure maximum agricultural productivity with minimum environmental impact.

FOOD QUALITY AND SAFETY (+$15,800,000)

The quality and safety of America's food supply have never been better. Paradoxically, however, people have become more sensitive to perceived hazards in their food. Research to enhance food quality and safety for the consumer will focus primarily on the priority needs of the Department's action and regulatory agencies. This will include more efficient, less costly tests for detecting harmful microorganisms and chemical residues in food. We will also continue to develop biological controls and other alternatives to synthetic pesticides, devise production systems that minimize potential contamination, and explore ways to reduce risks from mycotoxins such as aflatoxin.

Also, we are proposing $5 million for research to expedite development of environmentally sound control agents for the eradication of illicit narcotic crops.

EFFICIENCY AND PROFITABILITY OF FARMING (+$9,074,000)

Our budget request includes new funding for the Plant Genome Mapping Program. This is USDA's plan for mapping desirable genes in major food and forest crops. Our international trade competitors already are aggressively pursuing plant genome mapping. The ability of American agriculture to meet 21st-century challenges will depend on investments made now.

Down the road, we expect to use the knowledge we gain about the plant genome to alter plants for many important functions—from drought-stress resistance to food safety, from food to nutritional content. ARS is managing the program in close cooperation with U.S. universities and private industry.

In addition to this new funding, ARS will also administer $15 million in competitive grants for genome mapping. This amount is included in the Cooperative State Research Service budget under the National Research Initiative proposal.

We will increase our efforts to acquire, maintain, evaluate, and enhance plant germplasm in concert with the Cooperative State Research Service. This program ensures long-term diversity of economically important crops and provides an essential resource for plant breeders and geneticists. This program will pay dividends well into the 21st century.

Our animal science research will continue to be focused on economically important diseases of livestock and poultry. New research will concentrate on animal germplasm preservation, characterization, inventory, and management. This program will ensure that we maintain the diversity of our food-producing animals.

We are also requesting $5,448,000 which represents 50 percent of the 1991 pay raise.

BUILDING AND FACILITIES (+$32,600,000)

The need for modern research facilities is critical. Some ARS facilities are 30 years old or older. A few need major renovation to provide state-of-the-art laboratories for high-quality scientific research and to bring us in line with current employee health and safety standards.

The FY 1991 budget recommends $30.1 million to complete projects partially financed in the FY 1990 appropriation, and $2.5 million for a high-containment poultry facility. Specifically, proposals are:

1. Again this year, our highest priority need is the new National Seed Storage Laboratory at Fort Collins, Colorado. This facility is critically important to farmers nationwide and to the long-term health of U.S. agriculture. We again seek full fund-

ing this year. To date, Congress has provided $1 million for planning and $8,250,000 for construction. The proposed increase of $4 million would enable us to begin construction, which can't be started until the entire package is fully funded.

2. The Beltsville Agricultural Research Center (BARC) would receive $16 million for the continuing modernization of facilities there. Most of the major ARS facilities and utility support systems at BARC date from the 1930's and 1940's, and they are clearly inadequate for today's needs. Earlier, I mentioned some of the progress made to date. Details of this proposal are provided in the Explanatory Notes.

3. A new Fruit and Vegetable Research Laboratory in Yakima, Washington, would be funded for construction at $10.1 million. Thus far, Congress has provided $1 million for planning and designing this new facility and $1.9 million for construction. This new facility would support research on the biology, ecology, and control of insect and mite pests on deciduous fruits, vegetables, and field crops. This facility becomes especially important for producers in light of the Environmental Protection Agency's pesticide reviews. Again, we cannot begin construction until the project is fully funded.

4. An addition to our Poultry Disease Laboratory at Athens, Georgia, would be funded at $2.5 million for planning, design, and construction. This addition remains a high-priority need. It is necessary for cost-effective research on avian influenza, Salmonella, and the potentially threatening exotic Newcastle disease. The poultry industry has pledged substantial funding towards the structure.

Mr. Chairman, my staff and I are available to respond to your questions.

STATEMENT OF DR. JOHN PATRICK JORDAN

Mr. Chairman and Members of the Subcommittee: The Cooperative State Research Service is the agency of the USDA through which Federal research funding for the States is channeled and coordinated on behalf of the Department of Agriculture, in cooperation with all of the State and Territorial Agricultural Experiment Stations; the Colleges of 1890, including Tuskegee University; all of the Forestry Schools; and all of the Colleges of Veterinary Medicine in the United States. In addition to land-grant universities, there are other universities, not of the land-grant model, which are participants in the system. All of these institutions operate as a very effective system to jointly address regional and national needs as well as their particular State and local agendas.

REPORT OF SELECTED SIGNIFICANT ACCOMPLISHMENTS

There are a number of exciting advances that I would like to report to you. The application of Integrated Pest Management (IPM) principles at the North Carolina Agricultural Experiment Station has led to a more economically and environmentally acceptable system of combating a pest complex of soybeans. Soybean fields predicted to have a soybean cyst nematode problem can also be expected to have increased weed and insect problems and negligible profit potential. As a result of an IPM Special Research Grant study, North Carolina will recommend crop rotation as the most economically feasible means of combating soybean cyst nematode and the associated pest problems. The combined inputs for nematode, insect and weed control make soybean production economically prohibitive where soybean cyst nematode populations are present.

In Indiana, researchers supported with Hatch Act funds have developed an instrument that assesses the fat percentage of hog carcasses in a few seconds. Applicable to both individual cuts and whole carcasses, the technology will help pork packers provide better and more uniform quality cuts to consumers. The technology also may be useful to producers who need immediate, accurate feedback regarding animal leanness when making breeding and production decisions.

Limited resource farmers, who produce fruits and vegetables, need an inexpensive means of precooling and temporarily storing their products in order to get better products to market. In Georgia, at Fort Valley State College, researchers were issued a U.S. Patent on a container that can be used for precooling, shipping and storing. The cost of shipping fruits and vegetables will be reduced, since the container is insulated and will permit shipping products several hundred miles in nonrefrigerated vehicles. The containers are reusable; therefore, the cost of shipping containers will be reduced. This research was supported with Evans-Allen funds.

Pseudorabies is a significant and costly disease of swine resulting in productivity losses and death in young animals. Since pseudorabies is caused by a herpesvirus, recovered swine serve as a source of latent infectious virus. It was not known whether this latent infection was localized in the lymphoid or nervous system.

Using molecular biology techniques, researchers at the University of Nebraska have found that the herpesvirus establishes a latent infection in the nervous system of swine. This is similar to the cold sore virus in humans. It is hoped that these techniques can be adapted to a quick diagnosis system so that infected swine can be identified and removed from the population. This research was funded from the Competitive Research Grants program.

NATIONAL INITIATIVE FOR RESEARCH ON AGRICULTURE, FOOD, AND THE ENVIRONMENT

Agriculture in the 1900's must provide better stewardship of the environment, more rational use of natural resources, improve the quality and nutrition of food and economically stabilize production systems in order to continue to benefit producers as well as consumers. In 1991, $100 million is being proposed for a new National Initiative for Research on Agriculture, Food, and the Environment which will respond to the major issues facing agriculture such as food safety, water quality, global climate change, pest management, scientific human capital development and farm income and market competitiveness. It will allow U.S. agriculture to broaden the science and technology base to more effectively meet these demanding needs and exploit new opportunities. These imperatives coincide with recent advances in biological science and other new tools in science that present unique research opportunities to improve agriculture nationally.

As Secretary Hess has already alluded, a recent report from the Board on Agriculture of the National Academy of Sciences' National Research Council (Investing in Research: A Proposal to Strengthen the Agricultural, Food, and Environmental System) recommends the establishment of this Initiative with new funding of $500 million per year. The Initiative has evolved as a broad national consensus of USDA research agencies, Federal and state scientists, conservationists, environmentalists, consumers, producers and processors of food and fiber along with related industries. Congruent with this recommendation, the USDA and its cooperators, in their national planning activities, have identified virtually identical national research initiatives that require major funding for the national good.

The CSRS budget request includes $100 million to begin this Initiative in 1991. There are six research components proposed in the Initiative and the $100 million request will fund four of these components in 1991. This request includes $15 million for Natural Resources and the Environment which consists of $9.4 million for global change, $4.6 million for water quality, and $1 million for sustainable agriculture; $5 million for Nutrition, Food Quality and Health; $50 million for Plant Systems including $15 million for the plant genome mapping program with the Agricultural Research Service as the lead agency; and $30 million for Animal Systems. The Initiative includes a commitment for annual increases of $50 million, provided that funds are made available for competitively awarded grants. The plan for subsequent years includes programs in Processes that Lead to New Products and Adding of Value and Markets, Trade and Policy.

Federal funding for the Initiative is necessary because: (1) the issues and opportunities are national in scope; the nation as a whole is the beneficiary of this effort, not just individual states or industries, (2) the Initiative undertakes research that does not in general produce specific patentable or marketable products, but knowledge that will be broadly applicable, (3) the need is urgent; the issues described below require action now and cannot be delayed or taken up piecemeal, (4) the health and vigor of a major segment of U.S. industry is at stake in terms of international competitiveness, and (5) there are benefits, although difficult to measure in economic terms, related to protection of the environment and public health.

The demands upon agricultural science for new knowledge have far outstripped the capacity for the USDA budget to provide needed leadership to a national agenda. Consequently, critical opportunities are missed, such as the relatively slow applications of biotechnology to agricultural uses; slow development of new crops for greater diversity or crops with improved nutrient composition, safety and post harvest quality; too few projects make use of science to improve and/or protect the environment and preserve natural resources and not enough effort is expended to reduce U.S. agricultural production cost or increase product value, which are seen as necessary first steps for increasing farm profitability and America's long term international competitiveness in agriculture.

The Federal laboratories and State Agricultural Experiment Stations (SAES) have provided the foundation for the development of technology for vastly improving agricultural production. Much of this is done through direct and formula funding which ensures a long-term stable base of support for certain kinds of research known to be important to agriculture. Formula funding also has the unique advantage of several fold leveraging of state support through matching funds. Both intramural programs and nationally focused State Agricultural Experiment Station programs are important to maintain national thrusts in agricultural research in established laboratories. The overall missions of these intramural programs can be defined and adjusted on a regular basis. Extramural programs, such as the Federal-state partnership of the State Agricultural Experiment Stations and other cooperating institutions provide attention to national, regional and area agricultural problems. Both programs are vitally important to the successful development of agricultural technology.

Present Departmental funding for research provides less than 5 percent for competitive research grants. The proposed Initiative would be a first step in resetting the balance with new funding to eventually reach a significantly greater portion of the total funding for research available from competitive research grants.

As the National Academy of Sciences report points out, "the delivery system—SAES scientists and Extension specialists and advisers, in combination with government and the private sector * * * is already unduly stressed and redirection would exacerbate staffing insufficiencies for both CES and SAES." Redirection of resources would do the same to the intramural Federal laboratories. The National Academy of Sciences' report concludes that there is both an overall shortage of funding and a major deficiency in the competitively awarded funds. The Department of Agriculture concurs with this conclusion.

A major infusion of new funding is needed to allow the strengths of each research funding mechanism to do best what each is designed to accomplish. It is not simply a choice of one mechanism over another, but an intended synergy of mechanisms. Each mechanism supports the others through a balanced addressing of the entire spectrum of agricultural research needs.

It is well accepted that fundamental investigations to support a national research agenda can be effectively achieved through a competitive research grants program. A competitively awarded National Initiative could strengthen the USDA intramural program, since USDA scientists are eligible to compete for the grants. It would also strengthen the extramural program by extending support to other outstanding scientists to address national agriculture and natural resource problems.

The Initiative calls for a major infusion of new Federal funding for research that addresses a set of societal and industrial issues. It recognizes that there are major untapped opportunities for improving U.S. agriculture and natural resources in modern biological and related sciences, especially in biotechnology and computer sciences, to address the most critical problems.

Approximately 70 percent of the effort proposed in the Initiative will support fundamental research directed at the most urgent problems. It is from this form of science that major conceptual breakthroughs are expected to emerge. Fundamental research projects will be both individual investigator grants (40 percent) and multidisciplinary team research grants (30 percent). Other forms of grants will be directed at mission-linked multidisciplinary studies (20 percent) as well as institutional strengthening grants (10 percent).

Funds will be awarded on a competitive, peer reviewed basis. This form of funding mechanism is uniquely suited to stimulating new research activity in specific, high-priority areas of science and engineering. All public and private universities, research organizations, Federal agencies, private organizations or corporations, and individuals will be eligible to compete for these funds. The Initiative will allow the average amount of USDA competitive research grants to be increased and the average duration to be extended. This will make USDA competitive research grants more comparable in size and length to grants awarded by the National Science Foundation and the National Institutes of Health.

The research agenda for the Initiative is both extensive and intensive. The needs for the research are enormous and the opportunities are at hand. The Initiative is a bold step forward to provide the scientific basis to assure agricultural productivity for future generations in ways that are compatible with the environment, safe for the consumer and viable for the producer.

BUDGET RECOMMENDATION

The CSRS budget recommendation for fiscal year 1991 is $346,893,000 which includes the $100 million for the National Research Initiative which replaces the current Competitive Research Grants program. We are fully appreciative of the overwhelming need to reduce spending in the Federal government, but this budget continues to reflect strong support for the State-Federal partnership in food and agricultural research and education. The Hatch, McIntire-Stennis, and Evans-Allen programs are the foundation upon which the remaining Federal funds including special and competitive research grants plus State and private industry funds build. Funding of these base programs is a high priority because they support the basic laboratory facilities, scientists, and graduate students necessary for the long-term stability of agricultural research. These programs allow the institutions maximum flexibility to support research of the highest priority and at the same time assure the strong working relationship between the USDA and the State Agricultural Experiment Station system. An increase of $3,487,000 is proposed for the Hatch Act. A decrease of $4,304,000 is proposed for the McIntire-Stennis program, however, funds for forestry research will be available on a competitive basis through the National Research Initiative. The budget recommendation contains a $1,157,000 increase for the Evans-Allen program which will support increased research consistent with a broader USDA initiative to strengthen the contribution of the 1890 institutions to agricultural and natural resources research and education.

The CSRS budget request includes funding for selected Special Research Grants which address important national needs such as integrated pest management, minor use animal drugs, the National Biological Impact Assessment program, pesticide clearance, pesticide impact assessment, low-input sustainable agriculture, and alternative and supplemental crops. As a part of a coordinated Federal water quality initiative, CSRS is requesting $10.0 million to conduct water quality research in the Midwest Corn Belt and in other major agricultural production regions consistent with the USDA Research Plan for Water Quality. A new grant program for global change is also being requested at a $5 million level for research at universities as part of a Federal initiative coordinated by the Committee on Earth Sciences. Emphasis of this work will be to gain a better understanding of agricultural contributions of methane and other gases to the atmosphere and to develop new strategies to ameliorate those impacts. Funds will also support a network to monitor ultraviolet-B levels.

HIGHER EDUCATION

We are extremely pleased this year to include in the budget an approach begun in 1990 to strengthen higher education in the food and agricultural sciences. We are proposing a finely tuned, integrated program which includes the Graduate Fellowships and Institution Challenge Grants programs. We are also proposing a doubling of the capacity building grants program for the 1890 institutions.

The National Needs Graduate Fellowships Program recruits and trains doctoral and master's fellows in targeted shortage areas such as biotechnology, bioprocessing/engineering, food science/human nutrition, marketing, and water science. Grants are awarded competitively to institutions identified via the peer review process as offering excellent teaching and research programs in the targeted areas. CSRS is requesting $4 million in 1991. This program was initiated in 1984 and has served to attract more than 400 superior new graduate students from a broad array of academic backgrounds into high priority disciplines. It is very likely that without the fellowships program these students would not be pursuing graduate study today in a food and agricultural discipline.

The Institution Challenge Grants Program is designed to revitalize the educational system which is primarily responsible for training food and agricultural scientists and professionals. It stimulates the private sector to match, dollar for dollar, the Federal partner in providing support to strengthen the infrastructure of the U.S. food and agricultural sciences higher education system. This $2 million program will foster partnership ventures among universities, industry, and government. Areas of partnership initiatives include curricula revitalization, faculty development, scientific instrumentation for teaching, undergraduate research including minority participation, and student recruitment and retention.

The 1890 Institutions Capacity Building Grants Program serves as the crux of the Department's high priority initiative to advance the capacity of the 1890 institutions and Tuskegee University. CSRS is requesting $11 million for this program. It is a competitive program and requires cooperation with one or more USDA agencies in developing a proposal and in carrying out the capacity building project as well as an academic institution with a recognized center of excellence which directly relates to the objectives of the proposal. In accordance with direction from the Committee, we are encouraging institutions to obtain matching funds. Given indications of success, we are proposing that in 1991 the awardee institution be required to obtain a dollar-for-dollar match from a non-Federal source. Funds will be targeted to initiatives which transcend the capability of a single institution to achieve. The program is designed to encourage expanded linkages with 1890 institutions as performers of research and developers of scientific and professional talent for the food and agricultural system.

Mr. Chairman, that concludes my prepared remarks. I will be pleased to answer any questions.

STATEMENT OF DR. MYRON D. JOHNSRUD

Mr. Chairman and members of the Committee, I appreciate the opportunity to discuss the fiscal year 1991 Extension Service Budget Proposal. Before I begin, I would like to introduce Dr. Geasler, the new Associate Administrator for Extension Service in USDA. He recently comes to us from Virginia Tech where he was Director of the Cooperative Extension in that State. Mr. Chairman, as we enter a New Decade, the Cooperative Extension System is very optimistic with our "New Directions" for the coming years. The plan we have launched will continue to strengthen our commitment to programs that address top priority problems of the Nation. This commitment allows Extension to target our resources on programs designed to the health and competitiveness of the agricultural sector, rural economic development, environmental issues, food safety concerns and the risks facing our youth. Cooperative Extension is dedicated to improving the lives of the American people through educational programs. Programs that effectively utilize the latest scientific knowledge to address contemporary issues and problems.

The Cooperative Extension System is a future-oriented, self-renewing, national educational network that creatively delivers programs that are at the cutting edge of contemporary concerns and the needs of people as illustrated in the issues the System is addressing as it moves in these New Directions.

—Definite Agenda Setting. The National Initiatives have revitalized our system in recognition of the value of a specific agenda setting process through the involvement of the American public.

—Issued-Based Programming. Relevant National issues such as Water Quality, Youth At Risk, Food Safety, and Rural Revitalization are now priority throughout the Extension System.

—Partnerships and Teamwork. Interdisciplinary teams and strengthened partnerships with institutions of higher education outside the land-grant system, other Federal agencies, and the private sector are now being implemented and are instrumental in accomplishing the priority program agenda.

—Innovation and Risk-Taking. Throughout the System, Extension personnel are making bold decisions in designing and implementing needed programs that are targeting on sensitive societal concerns and issues.

—High Technology Utilization. The contemporary programs being developed throughout the Extension System are being supported by using the latest communication, information and technology delivery systems. These technologies are being recognized as cost cutting, efficient methods of targeting audiences and delivering the needed programs.

The National Initiatives effort, started three years ago, has provided a tremendous dividend for our cooperators in focusing resources and programs on critical National issues; it has signaled a renewed sense of relevance to these real world problems. Our Status of Programs portion of the Explanatory Notes outlines some of the concrete accomplishments resulting from National Initiatives. Please allow me to mention some notable accomplishments from these efforts:

In Mississippi, with the declining water table and fewer sources of irrigation water, the Extension Service is encouraging methods for more efficient use of both surface and groundwater for irrigation. Over 250,000 acres are being irrigated under these methods with savings of up to 30 percent of total water used.

Working with local governments, the University of Maryland Extension Service addressed water quality issues with over 21,000 Marylanders and made over 58,000 direct contacts with clientele. Water quality, and conservation were addressed in plans covering almost 400,000 acres statewide.

Over 1,300 Minnesota teenagers have been trained to teach elementary students about drug and alcohol abuse and decision-making skills. These teenagers are at work In over 40 communities and have reached an estimated 20,000 young students. Another program, managing stress and depression, has reached more than 100,000 junior and senior high school students through the efforts of some 2,000 youth professionals trained by the University of Minnesota Extension Service.

An Extension Service food safety task force at Louisiana State University quickly responded to food safety issues with a publication for the public on current food safety concerns on Alar and EBDC. Over 75,000 consumers adopted safe food handling practices as a result of these Extension programs.

Extension Service programs on pesticides are closely related to the efforts in Water Quality and Food Safety. In Arkansas, pesticide management and application was integrated with programs designed to prevent water degradation and reached over 2,000 producers and consumers and impacted on over a million acres.

These are just a few specific examples of programs repeated throughout the Nation by the Extension Service. Programs that are targeted on current and longer term critical National and State issues. Our budget proposal for fiscal year 1991 emphasizes the issues the System determined as high priority, based on public input to our program agenda.

PROPOSED FISCAL YEAR 1991 BUDGET

The Budget Proposal for fiscal year 1991 for Extension Service totals $345,676,000.

The proposed overall funding levels and specific budget items are reflective of the Administration's priority issues and the increased role of the Cooperative Extension System in addressing some of these major National issues.

While the President's Budget contains traditional proposals of reducing or eliminating certain earmarked funding, the fiscal year 1991 increases provide the Extension Services with resources that can be directed to the following program priorities: bolster efforts in addressing Water Quality, Youth At Risk, Food Safety and Environmental issues; maintain support for Core programs carried out with the Smith-Lever Formula 3(b)&(c) Funds; further enhance the capacity of the 1890 Institutions and Tuskegee University in conducting their special missions.

An increase of $4,263,000 is being proposed for the Smith-Lever 3(b)&(c) formula funds. Basic general formula funding has been fairly constant for several years. Strong Federal support for these funds allows the System to sustain the basic specialist staff involved in support of National and State priorities in an effectively and timely manner. These funds, matched by the States on a one-to-one basis, provide for support of core programs in all institutions.

$15.5 Million is proposed for water quality programs in fiscal year 1991. This proposal is Extension's part in the coordinated government initiative. The initiative spoken about by Secretary Yeutter involves several USDA agencies, EPA, the U.S. Geological Survey and our partners in the Land-Grant Institutions. The funds will support educational programs to America's farmers that address the voluntary adoption of improved environmentally sound management practices which do not sacrifice profitability and continue the enhancement and maintenance of water quality. Demonstration projects, improved program support capabilities with SCS, Non-point Source Hydrologic Unit projects, and Regional efforts are the key elements of this proposal.

President Bush in his State of the Union message mentioned two very critical issues that must be faced by America today—Education and Building Human Capital. And nowhere is this more critical than in the area of our Nation's Youth. The $10 million program proposed for Youth-at-Risk by Extension is our part of that challenge. The primary objective of this program is to implement prevention and intervention programs to assist youth in dealing with the adverse conditions causing risk such as drugs, poverty, lack of positive parent support and negative peer pressure. The Extension Service has a proven history of educating young people and offers the advantage of providing stable, university based support. By enlisting the support of local communities, independent volunteers and the private sector, we hope to maximize efforts of all these groups in positively impacting youth and families.

The Cooperative Extension System will implement programs modeled after existing successful projects which are operating in several States. This funding will provide support services and training targeted to existing or start-up projects operated by other organizations or local communities addressing the youth-at-risk issues. Specific commitments for matching at the local level will be required. The importance of this proposal, which deals with our Nation's future generations, cannot be overemphasized. We believe our expertise and experience in this area, can contribute greatly in addressing this major societal problem.

We are requesting $2,000,000 to strengthen our Food Safety program. The Extension Service is the only nationwide educational network that links research, science and technology to the needs of the people. Currently, the Cooperative Extension System is engaged in a variety of educational programs for all sectors of the food chain—producers, handlers, consumers. We want to expand our educational program on understanding risk assessments of food safety issues. This funding will allow a more focused effort on a coordinated nationwide program to address food safety issues which often cause undue concern among consumers and producers because of lack of understanding.

Consistent with USDA's commitment to strengthen the 1890 Colleges and Tuskegee University, our fiscal year 1991 Budget proposes a $1,256,000 increase to enhance the Extension effort at these Institutions to address major national concerns such as teenage pregnancy, drug abuse and the aging population. The 1890's have a crucial role in identifying and targeting critical issues which can be addressed through their relationships with limited resource groups.

A $1 million increase is requested for the Pesticide Impact Assessment program. As an expanding effort in addressing the priority environmental concerns of the Nation, this increase will support the Cooperative Extension System's responsibility for pesticide assessments which respond to Federal regulatory issues on specific pesticides. The evaluation of pest control and measures in endangered species habitat, and the study of new pesticides and pesticide alternative will be accomplished. Additionally, funds would be used to maintain a National database of pesticide usage. A database that may be linked with others to assess the impacts of water quality management activities at National and State levels.

A $500,000 proposal is included in the Federal Administration line item for Extension Service-USDA. These resources are critical for ES-USDA to remain an effective and efficient partner within the Cooperative Extension System. The requested funding level is vital for handling the substantial responsibilities required of ES-USDA as both a coordinator and working partner with other Federal, state and local agencies and organizations in behalf of the Cooperative Extension System.

An intensified EFNEP program is proposed in fiscal year 1991. The proposed funding level is based on more cooperation with the Food Stamp program, WIC and other USDA efforts, training more volunteers for program delivery, and blending the historic one-to-one relationships of EFNEP aides and clientele Increased use of small-group involvement by participants. We also propose matching at the State level.

Lastly, we are proposing the elimination of the earmarked funding for Urban Gardening; Farm Safety; Farm Financial Management; RREA; Disadvantaged Farmer Assistance Grants; Rural Development Centers and certain special projects under the Federal Administration account. Most of these projects have been sufficiently integrated into ongoing programs.

This concludes my remarks Mr. Chairman, I will be happy to respond to any questions from you and other members of the Subcommittee.

Biographical Sketches

CHARLES E. HESS

Charles E. Hess was sworn in as Assistant Secretary for Science and Education on May 22, 1989. He is responsible for USDA research and education programs in the food and agricultural sciences, including planning, evaluation, and coordination of the State-Federal activities through various committee structures. The Agricultural Research Service, the Cooperative State Research Service, the Extension Service, and the National Agricultural Library are under his general supervision. He also serves as USDA's Co-Chair of the Joint Council on Food and Agricultural Sciences.

A native of New Jersey, Dr. Hess earned his B.S. degree in plant science from Rutgers University in 1953. He received M.S. and Ph.D. degrees in horticulture, plant physiology, and plant pathology from Cornell University in 1954 and 1957. From 1956 to 1958, he served as a first lieutenant in the U.S. Army Chemical Corps at the U.S. Army Biological Laboratories in Frederick, Maryland.

He began his career with the Department of Horticulture at Purdue University in 1958. He later became Research Professor and Chair of the Department of Horticulture and Forestry at Rutgers University in New Brunswick, New Jersey. After serving as both Associate Dean and Acting Dean of the College of Agriculture and Environmental Sciences at Rutgers, in 1972 Dr. Hess became the first Dean of Cook College at Rutgers. From 1971 to 1975, he was also Director of the New Jersey Agricultural Experiment Station.

In 1975, Dr. Hess was appointed Dean of the College of Agricultural and Environmental Sciences at the University of California at Davis and Associate Director of the California Agricultural Experiment Station. On January 1, 1988, he assumed the additional post of Director of Programs, Division of Agriculture and Natural Resources, for the California Agricultural Experiment Station and the Cooperative Extension Service.

Dr. Hess was named to Phi Beta Kappa at Rutgers, and in 1983, he received an honorary doctoral degree from Purdue. He has been honored as a fellow in the American Association for the Advancement of Science and in the American Society for Horticultural Science, and in 1988, he received a USDA Award for Distinguished Service.

From 1982-1988, he had a Presidential appointment to the National Science Board (National Science Foundation), and in 1987, Secretary Lyng appointed him as Co-Chair of the Joint Council on Food and Agricultural Sciences. He chaired the National Research Council committee to develop a National Strategy for Biotechnology in Agriculture. In addition, he has traveled extensively as an adviser and consultant on agricultural matters.

HARRY C. MUSSMAN

Secretary Yeutter appointed Harry C. Mussman, a native of Wisconsin, as Deputy Assistant Secretary for Science and Education at the U.S. Department of Agriculture on August 31, 1989. Dr. Mussman brings to the position a broad knowledge of the Department and extensive experience in teaching, research, and management.

Dr. Mussman earned his B.S. degree in agricultural bacteriology from the University of Wisconsin in 1955. In the years that followed, he managed his family beef cattle ranching operation in Kansas while working toward his advanced degrees at Kansas State University.

He received his M.S. and Ph.D. degrees in microbiology in 1957 and 1959, respectively, and his D.V.M. in 1965. For the next seven years, Dr. Mussman was an assistant professor at Kansas State University, and then an associate professor in veterinary science at the University of Nebraska. In the latter position, he spent three years in Colombia, South America, heading the veterinary technical assistance project of the Nebraska Mission in that country.

In 1971, Dr. Mussman joined USDA in Consumer and Marketing Services. He moved to the Animal and Plant Health Inspection Service in 1972, and held positions of increasing responsibility there until 1977 when he accepted a position with the Food and Agriculture Organization of the U.N. in Rome, Italy.

Returning to APHIS in 1980, he served as the agency's administrator until 1983. From then until 1986, he was executive vice president for scientific affairs for the National Food Processors Association in Washington, D.C. Since 1986, he has been director of the animal health and plant protection program for the Inter-American Institute for Cooperation in Agriculture at its headquarters in San Jose, Costa Rica.

Dr. Mussman received the Presidential Rank of Meritorious Executive in 1982; a commendation by the California legislature in 1982; and an honorary professorship at the National University of Bogota, Colombia, in 1968. Widely published, Dr. Mussman has served on a large number of national and international committees, commissions, and panels over the years, many of which dealt with Mexican-American cooperation on control of animal and plant diseases.

DR. PAUL K. STUMPF

Dr. Paul K. Stumpf was appointed Chief Scientist of the Cooperative State Research Service Competitive Research Grants Office in October 1988. He provides administrative guidance and scientific expertise to the Competitive Research Grants program. Born in New York City, he earned a Bachelor of Arts degree (Magna Cum Laude) from Harvard College and a Ph.D. (in Biochemistry) from Columbia University. He became Assistant Professor of Plant Nutrition at the University of California-Berkeley and rose to Professor of Agricultural Biochemistry and chair of that Department on the Berkeley campus. After ten years in Berkeley he was asked to organize a new Department of Biochemistry and Biophysics on the Davis Campus by Chancellor Emil Mrak. After 36 years of service to the University of California he became Professor Emeritus of Biochemistry in 1984. On the professional level he taught general and plant biochemistry, carried out research on plant lipid biochemistry, published over 225 research papers, wrote a number of text books including the popular "Outlines of Biochemistry" by Conn/Stumpf, and was co-editor-in-chief of the 16 volume Treatise: "The Biochemistry of Plants".

A member of the National Academy of Sciences USA, the Royal Danish Academy of Sciences, and a fellow of The Linnean Society of London, he also served as President of the American Society of Plant Physiologists and is presently Chair of the

Board of Trustees of that Society. He was twice a Guggenheim Fellow, a Senior-Scientist Awardee of the Alexander von Humboldt Foundation of West Germany, and also was awarded the prestigious Stephen Hales Award of the American Society of Plant Physiologists and the Lipid Chemistry Award of the American Oil Chemist Society. He has been editor and executive editor of a number of professional journals and has served on numerous review panels at NIH and NSF.

His principal research centered on the enzymic breakdown and biosynthesis of lipids. He pioneered in investigations that centered on a fuller understanding of the functions of plant lipids in chloroplasts and in the detailed mechanisms of the synthesis of leaf and seed lipids. He continues to have a broad interest in all aspects of plant biochemistry.

MITCHELL R. GEASLER

Dr. Geasler came to ES-USDA, January 2, 1990. From 1981 through 1989 he was Vice Provost for Extension and Director of the Virginia Cooperative Extension at Virginia Tech. He came to Virginia Tech via Michigan State University where he was Assistant Director of Extension for Agriculture and Marketing Programs. He received his B.S. and doctorate degree from Michigan State University.

Early in his career, Dr. Geasler was a part of the Michigan Extension Service field staff as a 4-H Youth Agent. Between 1970-75 he held the position of Associate Professor in the Animal Science Department at Iowa State University where he was Extension Livestock Specialist, Beef Cattle. In 1975, he became Professor in charge of Farm Operations Department, College of Agriculture, Iowa State University and in 1976 was named Assistant Director of Extension for Agriculture and Marketing at Michigan State.

Dr. Geasler has two children, Jeffrey and Michelle and two grandchildren.

U.S. FRUIT AND VEGETABLE LABORATORY

Senator BURDICK. Thank you.

We will now hear from the Pacific coast.

Senator ADAMS. Thank you, Mr. Chairman.

Mr. Secretary, it is a pleasure to have you here today.

I particularly am pleased to see you here, Dr. Plowman. I am happy that the Department of Agriculture has included funds in its budget this year for the relocation of the ARS Laboratory in Yakima.

Mr. Chairman, we have a wonderful facility there. It is of critical importance to our State fruit industry, which needs all the help that we can possibly give it at the present time, and we want to give them that help. It is a very important way of controlling crop pests. It has been used and developed through your laboratory. I also appreciate the research that you are doing.

I would like to commend the Department, Mr. Secretary, for its wisdom in placing this item in the budget. Later I will ask Dr. Plowman to state, from his point of view, why it is so important.

Mr. Chairman, I wanted you to know how much we appreciate the fact that this is being done. I wanted particularly for the Secretary to know this.

I am looking forward to hearing the rest of the testimony.

Thank you very much. I enjoyed your testimony, Dr. Hess, and I will be looking forward to hearing from you, Dr. Plowman, and to helping you with that laboratory.

Senator BURDICK. Thank you.

The Senator from Idaho is now on.

Senator MCCLURE. Mr. Chairman, I will reserve my comments until it is appropriate to ask questions.

Senator BURDICK. Right now.

Senator McClure. Right now? All right.

Thank you very much, Mr. Chairman.

BARLEY YELLOW DWARF VIRUS

I appreciate the opportunity to be here and to listen to the testimony of the witnesses and also to ask a few questions.

As anybody who looks at the Department of Agriculture, the activities that are conducted by the several agencies of the Department that are represented here at the table today, and the activities of this committee, will understand the complexity and the breadth of the research efforts that are necessary and important to all of us. I certainly will not attempt to cover the waterfront. But I do want to ask a few questions and to focus on a few items that are not necessarily more important than others, but that I have a particular reason to ask about them.

One is with respect to barley yellow dwarf virus. It is the No. 1 virus disease problem of small grains, of barley, oats, and wheat.

The ARS comprehensive plan of research on the BYDV problem committed $490,500 and one scientist to develop small grains gene transfer technology at the Plant Gene Expression Center in Albany, CA, starting in fiscal year 1989. However, the research was never carried out.

The PGEC efforts have been directed at developing gene transfer technology for other crops, which is not directly applicable to small grains.

Can you tell me why the ARS is not fulfilling its commitment to this program by dedicating one permanent, full-time researcher at the PGEC, to gene transfer research with barley, oats, and wheat?

Dr. Plowman. Yes, Senator McClure; I will be glad to respond to that.

The successful solution to that problem depends on being able to use genetic engineering to transfer appropriate genes from one crop to another. We have not at this time been able to do that on monocotyledenous crops like barley and wheat.

Now, since the Plant Gene Expression Center has been able to work with corn which is an easier crop to work with, we know much more about it. We have been trying to develop the technology in order to allow us to also work on barley.

Just in these last few months we think we have developed a technique to make those stable transformations. Now that we have worked out in corn the technique for adding genes one at a time to a cereal plant, it will be possible for us to apply the same technology to move new genes into barley.

The barley people were visiting with us earlier in the week and we discussed this whole issue with them at length. I think we are all satisfied now that we can move ahead with that technology, based on the experience we have had in corn.

Senator McClure. We had that commitment last year, that you would do it. You have explained that you found it difficult to do. Now you say that you will make that commitment for next year.

Can we depend upon that commitment?

Dr. Plowman. Well, we can't guarantee success.

Senator McClure. I didn't ask for success. I asked for effort.

Dr. PLOWMAN. Well, we have had a lot of effort, I swear. [Laughter.]

Senator McCLURE. OK, and you promise that you will have more?

Dr. PLOWMAN. That's true. [Laughter.]

RUSSIAN WHEAT APHID

Senator McCLURE. Thank you very much.

The Russian wheat aphid is not only a threat to the wheat crop, but actually prefers barley, and can be more damaging to barley than wheat.

A more appropriate name for the pest would be the Russian grain aphid.

Congress appropriated $750,000 for fiscal year 1990 for RWA research. Considering the significant threat that this pest poses to barley, what portion of this funding is being allocated to barley research?

Dr. PLOWMAN. I have just had the pleasure, just this past week, to visit our laboratory in Oklahoma that has the responsibility to work on the Russian wheat aphid, which I agree is probably a bad name. But we did not give it its name.

Now there are some really exciting things going on that involve barley.

One of the things that I was especially pleased to see was how the laboratory had taken all of the barley germplasm materials that we have at Aberdeen which they are methodically screening. They are now screening that to see if they can find some resistance and have gone through more than 2,000 different samples of barley germplasm.

I am happy to report that I personally saw in the greenhouse five of those lines that looked very, very promising.

From among a lot of others that were eaten up by the Russian wheat aphid, there were five that looked like they had hardly been damaged at all. So we are really moving ahead.

The plan is to continue and to methodically go through the entire collection. We are about halfway through. We will, however in this next year, be able to screen the entire collection for resistance.

So I think that is very good.

We have some other work there that is not crop specific. For example, we are also looking at some biocontrol methods and we have found a very, very small, parasitic wasp. The wasp does not care whether the aphid is on wheat, grass, or wherever. It is noncrop specific and it looks very promising.

We also had a team of people this past summer go to various places in the world where the Russian wheat aphid is indigenous to look for some of its natural enemies. So we are looking at all kinds of alternatives.

We are making really good progress in this area considering the relatively short time element since we have had to deal with the problem.

Senator McCLURE. Is all of the $750,000 that was appropriated last year being spent at the Oklahoma station?

Dr. **Plowman**. I can't tell you that at this time.

Senator **McClure**. If you don't know off the top of your head, could you submit that for the record?

Dr. **Plowman**. The majority of it is. We would be glad to supply that information for the record.

Senator **McClure**. Dr. Jordan?

Dr. **Jordan**. Senator, there is also $739,000 for a CSRS special grant on Russian wheat aphid. This is a cooperative program involving Washington State University, the University of Idaho, and Oregon State University, and this year, the University of California. The funds are being spent by those institutions in those locations.

Senator **McClure**. That's in addition to the other funding?

Dr. **Jordan**. Yes, sir.

Dr. **Plowman**. I can tell you, Senator, that not all of the money is in Oklahoma, because part of the effort is supporting our overseas laboratories which are looking for these natural pests and enemies.

Senator **McClure**. If you could supply that for the record, please, I would appreciate it.

Dr. **Plowman**. We would be pleased to do that.

[The information follows:]

RUSSIAN WHEAT APHID

Location	Activity	Total
Stillwater, OK	Host plant resistance, IPM strategy, develop biocontrol agents.	$444,600
Ithaca, NY	Develop microbial control	183,800
Headquarters	Support state and Federal effort on RWA biocontrol	111,100
Total		$739,500

BARLEY STRIPE RUST

Senator **McClure**. Barley stripe rust is a disease in barley that has the potential for devastating the barley crop throughout the United States.

In 1975, it moved from Europe to South America, and rapidly spread throughout the region. The BSR pathogen has since moved northward, and was found in Mexico in 1987.

At the current rate of spread, BSR should be found in the Southern United States within the next 2 years.

Action is needed to protect the U.S. barley crop from destruction by BSR. Has the ARS assessed BSR research needs and developed appropriate recommendations for management of the BSR threat?

Dr. **Plowman**. Yes, sir.

We are very much aware of the problem. As you have so correctly indicated, it is now in Mexico. We will all be surprised if we don't have this problem soon.

We need to go through the same kinds of discussion and mechanisms that we have used for the Russian wheat aphid and start looking for resistance in our germplasm collection. We are, in fact, making plans to initiate a program to address this problem.

Senator McClure. Will that be started during this fiscal year, or does it await special funding next year?

Dr. Plowman. I have to check just where we are on that. But we will supply some more details about our plans.

Senator McClure. Thank you very much.

[The information follows:]

Barley Stripe Rust

ARS is prepared to begin systematic evaluation of the barley germplasm collection and elite malting barley lines, held at Aberdeen, Idaho, for reactions to race 24 of the barley stripe rust pathogen. This evaluation is, however, dependent upon the development of a cooperative working agreement with appropriate personnel and location in Mexico. Furthermore, we will assess the BSR situation in Mexico. We will begin such negotiations immediately. This entire effort will be highly dependent upon the continuation of our programs at Aberdeen, Idaho; Bozeman, Montana; and Tucson, Arizona. I am pleased to report that our scientists have already begun the process of crossing adapted germplasm with sources of resistance currently indicated in the literature.

COOL SEASON LEGUMES

Senator McClure. Food legumes are among the oldest cultivated crops. Peas, lentils, chickpeas, and faba beans are principal cool season food legumes found in temperate regions of the world and are widely grown there.

These legumes are high in protein and rich in fiber, complex carbohydrates, B vitamins, and potassium. These commodities are important cash crops in California, Idaho, Montana, Oregon, Washington, Wisconsin, Minnesota, and New York. Cash value to farmers, processors, and others associated with production and distribution of these food products exceeds an estimated $100 million annually.

These crops are important also because legume plants provide important benefits to farmers through improved soil fertility via biological nitrogen fixation, improved soil structure, moisture conservation, erosion control, serial disease reduction, and grassy weed control.

For many farmers, food legumes offer an alternative cash crop for income stability.

My first question is how many Federal research dollars are currently provided to peas and lentils?

Dr. Plowman. You may be surprised, but I just happened to have that figure.

Senator McClure. I'm not at all surprised. In fact, I'm grateful. [Laughter.]

Dr. Plowman. We do have an active program in Idaho, in northern Idaho. We are spending at the present time $1.13 million. The program is divided into two areas primarily. As you well know, we are losing some of the minor use pesticides that especially control weeds in peas and lentils. So we are spending some of our efforts to find other alternatives. Last year, we did find another chemical that can help in that situation.

The other effort we have ongoing is on breeding, to develop more resistance in the plant and for increased productivity. So we are spending $1.13 million, and we have two scientists there on a full-time basis.

Senator **McClure**. Second, how many Federal research dollars are currently provided to chickpeas, faba beans, and other cool season legumes?

Dr. **Plowman**. I don't have that figure.

Senator **McClure**. Aha. Got one that you didn't have. [Laughter.]

Dr. **Plowman**. That's true.

Senator **McClure**. Could you provide that one for the record, too, please.

Dr. **Plowman**. Certainly.

Senator **McClure**. Could you also indicate how that compares with other crops of the same economic importance?

Dr. **Plowman**. We'll do that.

[The information follows:]

Cool Season Legumes

While we do not have detailed budget information specifically for chickpeas, Faba beans, and other cool season legumes, we estimate that we obligate about $600,000 for research on these crops.

Since we do not have precise budget data for chickpeas, Faba beans, and other cool season legumes, it is very difficult to make a comparison with other crops of the same economic importance. However, we estimate that Federal research funds obligated collectively for research on peas, lentils, chickpeas, Faba beans and other cool season legumes would compare very favorably with other low acreage crops with an annual farm value of about $100 million.

Senator **McClure**. I know you are aware of the AID feasibility study on the need for further research in cool season legumes. This points out the need for more research on those areas.

What is the Department's view of the need for further research on crops?

Dr. **Plowman**. Well, certainly there are a lot of impediments in growing any crop. The acreage is not great for these crops. There are also more problems than we have resources to address at this time.

Senator **McClure**. If this subcommittee provided funds for a cool season legume research program, where would the funds be allocated and who would do the research?

Dr. **Plowman**. Well, I'd be giving you a biased opinion since I'm from ARS, but it would be my opinion that ARS should do that in conjunction with our ongoing program in northern Idaho and Washington. The program that we have there now is in cooperation with the experiment stations in those two States.

Senator **McClure**. To what extent would that kind of research, if we expanded it and asked you to do a cool season legume research program, facilitate a transfer of technology in international research centers currently studying cool season legumes?

Dr. **Plowman**. The international network for those legumes isn't nearly as well developed as, for example, the Rice Institute. I would, however, say that peas and lentils and those kinds of crops are much more important in some of these other countries because they provide their basic protein.

So I think it would have a tremendous value to the rest of the world, and perhaps more than it would for the United States.

Senator **McClure**. I guess the reason I ask that kind of question about the balance of research in relation to the current volume of crops is because I believe that perhaps these crops are underused today, because of their value in nutrition and in soil, in soil sciences and in the various ways of which these crops are very useful for a variety of things other than simply food.

I just wonder if we have not failed to focus on them simply because they were not as large in economic importance as other grain crops, for example.

Dr. **Plowman**. That's part of the argument, certainly, in this day. With all of the problems associated with monocultures, it would be a great thing to have more diversity that the farmers could use.

Senator **McClure**. Is the Department aware of the economic impact of the pea and lentil industry due to the loss of the chemical dinoseb?

Dr. **Plowman**. We're aware that that is a very important problem. It has caused a lot of distress with the farmers that are growing peas and lentils.

Senator **McClure**. Well, the increased cost, as I get it, of this loss is estimated at over $6 million.

Dr. **Plowman**. It wouldn't surprise me.

ALTERNATIVES TO DINOSEB

Senator **McClure**. The costs of replacing dinoseb with a combination of other chemicals escalate the costs of production, making it difficult to make a profit. This has cost producers millions. It has not cut the use of chemicals.

What growers need is research on alternatives to chemicals. Research on plant genetics, genome mapping and other biotechnical areas hold great promise, too, in developing varieties which are disease resistant, more aggressive than weeds, and still maintain yield and quality needed to provide profitability in production.

In addition to this needed area of research, the Cool Season Legume Research Center would focus on interaction between the United States scientific community and the international food legume community, particularly those in Icarda in Syria, and Icrasat, in India. Effective communication linkages need to be made which do not currently exist, and they can be built and sustained, I would think.

Mr. Chairman, I have a number of other questions in that regard, and I will submit the balance of my questions for response in writing.

Dr. Jordan, did you have a comment?

Dr. **Jordan**. I would just add on your dinoseb question that for the last 2 years we have had a special grant for Oregon State University focusing on this issue. It involves snap beans, cranberries, wheat, and small-seeded grain legumes. We are focusing on biological control mechanisms as well as some alternatives in the herbicide area. The $222,000 being spent this year represents a major effort.

Senator **McClure**. Thank you.

RISK ASSESSMENT OF AGRICULTURAL CHEMICALS

Mr. Chairman, I want to raise just one other issue, which goes far beyond this subcommittee or the gentlemen just before us. It has come to my attention very recently in a way that troubles me deeply. It is this whole area of risk assessment on the use of chemicals.

I am afraid that we can measure things we don't understand. I say that because it has come up in the Clean Air Act that is now on the floor of the Senate and will be acted on next week. It has come up with respect to a phosphate plant in southeastern Idaho, in which we look at risk assessments that threaten to close down activities or the use of chemicals far beyond any reasonable limit, in my opinion.

I got into that because I had to with respect to these two issues. I know that it is also used by EPA somewhat across the board in assessing the risks of the use of several chemicals.

I don't think any of us wants to be guilty of having caused health-related problems to anyone, at any level, at all. But I am afraid that we have completely lost our sense of balance as a nation. When we start looking at those questions, we don't look at any offsets.

We can take a look at radioactive elements that are discarded from a hospital or a medical research facility, and they can, and do, say well, those are risks and they may cause some health-related effects later, but, on the other hand, their use saves lives. Therefore, we will balance those two and make a judgment.

But when it comes to a chemical used in agriculture, there is no such balance—nothing with respect to the food value, nothing with respect to land values, nothing with respect to farmers' incomes or economic effects. It is all one-sided. It is unidimensional.

Now that would not be so bad if it were not so absurd.

We have now, according to Mr. Reilly of EPA, a risk assessment methodology which, in his words, if I can quote him, has almost universal acceptance among the scientific community.

What is that? Well, first of all I question it. If he really believes that, he is only listening to selective comments and he is not listening broadly to a broad range of comments.

But that is roughly the test of 10 to the minus 6 over 70 years. That's the most vulnerable person in society at the most intense exposure levels possible, where, if they were exposed to it constantly, 24 hours a day, 365 days of the year, over a 70-year period, one of them would develop a cancer or other health-related incident.

Or, to put it in another way, if this human activity or the use of a chemical caused 10 deaths in the next 700,000 years, it would have to be banned.

Now, if you apply that test—and it is not applied anywhere else in human activity or in governmental responsibilities—if you applied that test, you couldn't get out of bed in the morning. On the other hand, you couldn't stay in bed, either. [Laughter.]

This is just ludicrous. And yet, I see it being applied across the board, and it affects a lot of you and a lot of us in very, very important ways. Somewhere, somehow, we have to get control of this issue of risk assessment.

We know that if we build a coal-fired generating plant that is fueled by coal mined in underground mines, one more miner will die every year during the operation of that plant. That is statistically accurate.

So in the next 10 years, after the opening of that plant, there will be 10 miners who will have died. This is not the next 700,000 years, but the next 10 years.

There was recently a risk assessment analysis with respect to enhanced radiation of airline passengers and crews. The exposure and the incidence of cancer from flying an airplane at the altitudes that jets fly today is many hundreds of times greater than that applied to agricultural chemicals. And yet, if somebody would suggest—and I am about to do it—that we apply this test across every range of human and governmental activity and prohibit anything that violates it, we would close down this country immediately.

I suspect just what I am saying has caused some blood pressures to rise somewhere and has probably caused health effects that exceed 10 to the minus 6. [Laughter.]

I take this time, Mr. Chairman, because somehow we have to dramatize how nutty we have become. Somewhere we have to find a way to change that methodology to bring a little bit of balance into the discussions and decisions.

Risk assessment has been and is a good tool to rank comparative risk. But it is useless, dangerous, and destructive, to try to use that kind of risk assessment to determine where and when these activities must cease. Somewhere along the line, EPA, if they were subjected to their own risk assessment, would find they would have to close because they are causing far more difficulty than that.

Excuse me, Mr. Chairman.

Senator **BURDICK**. I can give you more time. [Laughter.]

Senator **MCCLURE**. Really, I am just amazed at what I am finding. I am absolutely struck by the ability of government to inflict mortal wounds.

You know, in the West, we have the idea that you can shoot yourself in the foot. That is supposed to bring up the mental image of the clumsy, drugstore cowboy who is trying to get his gun out of the holster. He pulled the trigger and shot himself in the foot.

But it didn't really mean pulling the foot up and taking dead aim and pulling the trigger. [Laughter.]

That's what we are doing to ourselves, unwittingly and witlessly. The Nation's scientific community—and you gentlemen represent some of the finest scientists that we have—need somehow to get out of the science, out of the laboratory, and into the real world and tell the real world what is happening in the name of science, because it isn't good science. It is bad science. It is science made worse because of the political intervention of people like those up here. And we have been misled into permitting that kind of thing to happen.

You have a responsibility and we have a responsibility. The American public needs to understand.

Mr. Chairman, I apologize for throwing that out in this setting because this is only a very, very small microcosm of the entire problem. But it must be dealt with.

Thank you, Mr. Chairman.

Senator BURDICK. Thank you.

Senator Adams.

Senator ADAMS. Thank you, Mr. Chairman.

COOL SEASON LEGUMES

I first want to state to the Senator from Idaho and to those in the pea, lentil, and legume business that I very much want to go on record sharing the concerns that were stated by Senator McClure, about the levels of funding for our cool season legumes. I would encourage the Department to explore ways to assist the industry.

We are concerned not only with the level that he mentioned, but we do have a great concern that there may be a withdrawal of substantial companies that have been supplying various types of pesticides and herbicides—in other words, the general supplies that have gone to the small crop industries. This applies not only to legumes, but to the others. They are very important in our State. They are very important crops. We understand that the major companies, because of liability problems and so on, are pulling out. So we need all the help that we can get in that area to be certain that we are covering it, and we want to give support to your efforts in that.

FRUIT AND VEGETABLE LABORATORY

Dr. Plowman, in my opening statement, I commented upon the Agricultural Research Laboratory in Yakima. I am very pleased to see in your statement that you are asking for a sufficient amount to complete the construction of this.

I would like to have you give to the committee now, if you would, the age and some of the other factors that are involved. I am very much in support of this being done. I think we need desperately to have up to date research and monitoring facilities in our State, and I am trying to encourage it in every area that I can. I want to encourage this particularly.

So, could you give me some of the details of what this specifically is going to be doing and the amount that you need?

Dr. PLOWMAN. Yes, sir; I would be pleased to do that.

First of all, I will tell you that the relationship between ARS and the fruit-producing industry up there is really excellent. The fruit-producing industry has taken it upon themselves to find a new location for us. They are donating about 10.9 acres of land so that we can construct a new laboratory and they are making a significant investment themselves into the realization of this laboratory. So we are really excited about that.

We have money for planning and a small amount for construction. We need about $10.1 million more, and we can then start breaking ground.

I think it is especially timely that we have this, with all of the environmental concerns. Those are the very things that this laboratory is going to address: the use of pesticides on fruits and vegetables and even on field crops. We are going to look at a wide range of both chemical and biological control to impact those problems.

As you well know, there are some real impediments now in shipping apples out of the country, especially to Japan. ARS has been instrumental in developing some treatments. Although this has partially solved the problem, there are now some new ones. The lesser apple moth is becoming a problem, and Japan won't let apples in unless we can prove that our methyl bromide treatment is effective for the lesser apple moth.

They are also very concerned with fire blight, which is a bacterial disease. So disease control also becomes a very significant problem.

This laboratory is very timely then. I think it is badly needed not just for Washington State. The same technologies will be needed and available for the whole country in fruits and vegetables. Also, we have only 2 years left on the current lease, and the owner has put the property on sale.

Senator **Adams**. And I hope, Dr. Plowman, that you will be certain that this information is coordinated with our present negotiating team that is over in Japan. We are having problems in the timber area and in the apple area, and we need that scientific backup.

I appreciate that.

Dr. Hess, I appreciated the presentation that you have made here today. We hope this laboratory will be able to be completed this year because we know when we are behind the power curve, in terms of what the public is beginning to expect. We have had some desperately difficult market conditions and we really are depending on you. We are very pleased that you are going to be both updating and reconstructing that laboratory.

Thank you, Mr. Chairman. That is all that I have, unless Dr. Plowman has anything further that he wants to say or any other member of the group.

IR-4 PROGRAM

Dr. **Hess**. Senator Adams, I just want to share with you our concern also for the compounds used on minor crops. As you know, we have the Hatch Act Interregional Four Program, which is working to help achieve a clearance of those compounds and looking for ways in which some of those costs can be shared to encourage companies to provide the materials needed for reregistration of them. It is a major challenge. In addition to that, we are looking for ways of achieving genetic resistance, either through conventional breeding or biotechnology techniques, which is the ultimate way of solving this problem.

Senator **Adams**. Yes; we just need your backup to help with those reregistrations and anything that you produce, we rely on you heavily for.

Thank you, Mr. Chairman.

RUSSIAN WHEAT APHID

Senator **Burdick**. What progress are you making on developing control methods for the Russian wheat aphid, Dr. Plowman?

Dr. **Plowman**. Mr. Chairman, I think we are making very good progress considering the short length of time that we have had that pest. We have a very active program. It is looking at several areas of control for both wheat, barley and also in grasses. We are looking at both chemical control and biological control, and have a very active program in trying to determine the germplasm in all of those crops that might be resistant to the Russian wheat aphid.

So we think we are coming along very well.

Senator **Burdick**. What is the estimate of damage that this pest is causing in this country?

Dr. **Plowman**. I don't have that information at my fingertips. But we have it and I will be glad to supply that for the record.

[The information follows:]

DAMAGE BY THE RUSSIAN WHEAT APHID

The Russian wheat aphid caused $52 million damage to wheat and barley in 1987, the first year after its detection. In 1988 the estimated damage was $120 million and in 1989 it was estimated at $130 million. This represents crop loss, expense of insecticides and reduction in quality of grain.

RESPONSE TO DIRECTIVE ON NEW NONFOOD USES

Senator **Burdick**. The Senate report accompanying the 1990 appropriations act directed you to initiate and make substantial progress toward the reallocation of no less than $50 million of the ARS budget to research on new nonfood uses for traditional food commodities such as wheat, corn, and soybeans, as newly appropriated and previously committed funds become available.

What progress have you made on this directive? That is addressed to anyone who wishes to answer.

Dr. **Plowman**. Yes, sir; during this past month, we have had a rather serious evaluation of our total program to rearrange priorities in view of this directive and to see where we could identify funds to work toward this goal.

The activity is centered primarily in our four utilization research centers. We have looked at that program in a very serious way. We are now putting together a plan with a goal of identifying this year about a redirection of in the neighborhood of $10 million. We are going to submit a report to the Senate in April, outlining the plan that we have developed.

Dr. **Jordan**. Senator, if I may, this is an outstanding example of cooperation between the State agricultural experiment station system, the Extension Service, and the Agricultural Research Service in working in this arena. I have with me an example of an automatic transmission fluid supplement, which is made from rapeseed. This is a new, nonfood product that comes from your area of the country. This is one of a whole sheaf of projects that are being worked on together in a cooperative fashion.

Senator **Burdick**. Rapeseed is raised to a considerable extent in Canada, too, is it not?

Dr. **Jordan**. Yes, it is, sir.

Senator **Burdick**. And to some extent in North Dakota.

Dr. **Jordan**. It is raised in the Dakotas and on the Great Plains.

Dr. **Plowman**. We hope, Mr. Chairman, that you might look into the brown bag that you have behind you there somewhere, which has some examples in it of some things that ARS has done this past year to respond to the need to have alternative crops and products.

For example, you will find in there a chamois leather variety that is a washable piece of leather. It is developed by our Eastern Utilization Laboratory through our hide and leather research program. I think you will find that very good.

We have been developing some insect repellents. Another thing we are rather pleased with is a low-calorie/high-fiber cupcake in there. It is the kind of thing where you can eat all you want and don't get any fat or calories. [Laughter.]

Senator **Burdick**. Give me the name of that one again, then. [Laughter.]

Dr. **Plowman**. They tell me you can eat all you want of those things and you won't get fat. It's right there, sir [indicating]. And it will lower your cholesterol at the same time. We'll vote on that. [Laughter.]

Dr. **Plowman**. So we are seriously looking at this area. We think it is a high-priority need for ARS to develop alternative uses of agricultural products. We expect to move into this area in an aggressive manner.

Senator **Burdick**. To anyone who wishes to answer this question: You propose more than a threefold increase for research on the eradication of illicit narcotic crops. Tell me more about this proposal.

What kind of research are you doing and what kind of crops are you looking at? This is for anyone who wants to answer.

Dr. **Hess**. Senator, as part of our overall research programs in pest management, we are working on the biological control of weeds, for example, and that same technology could be used for other crop plants which are viewed as being undesirable.

Beyond that, I really cannot say more about that particular research, unless Dr. Mussman would care to add anything to it.

Dr. **Mussman**. Mr. Chairman, we have all seen in the last week or 10 days a considerable amount of interest in the press reports of a caterpillar that was purported to be a likely candidate for research as a possible tool or mechanism to control coca-producing plants. We're not now working on that. I repeat, we are not working on that particular insect, although we have information on that as we do on a number of other potential, naturally occurring enemies of plants or other insects, simply to develop a data base of potential candidates for research at some time in the future.

It may be that sometime down the road, as budget resources increase, we would address the possible use of various insects for that purpose. But at the present time, we have very limited studies going on, most of which have been directed toward herbicide usage, rather than biocontrol agents.

Thank you, Mr. Chairman.

Senator **Burdick**. Are you working on marijuana?

Dr. **Mussman**. I'm sorry?

Senator **Burdick**. Are you working on marijuana?

Dr. **Mussman**. Primarily with herbicides, although an insect or control agent of an insect nature would be a very attractive possibility if we had one.

EXTENSION SERVICE

Senator **Burdick**. We will now turn to the great Northwest and I would ask if Dr. Johnsrud has a statement?

Dr. **Johnsrud**. Mr. Chairman, my statement has been inserted for the record and I don't have any particular comments to make, but I am prepared to respond to your questions.

Senator **Burdick**. Very well.

The 1991 budget proposes to reduce the Expanded Food and Nutrition Education Program by almost $37 million. Over the years, this program has been praised for its highly effective, low cost delivery of nutrition education services to needy families.

Now for the question. How can the Department reconcile its decision to cut back EFNEP, a program with proven effectiveness, and at the same time propose to initiate entirely new education programs in food safety for consumers and in health and nutrition training under the youth at risk proposal?

EFNEP

Dr. **Johnsrud**. Mr. Chairman, I agree with you that EFNEP is a good program and has reached very needy families. The proposal this year, which is similar to last year, does call for a matching requirement which would make the total funding over $43 million.

Another adjustment that would need to be made, and one that we have done some preliminary work on, involves work with small groups—three or four people in a group. This will extend our resources. This approach is being used in parts of the country and seems to be working pretty well.

The other thing we have done is intensified the contact with the families but shortened the program enrollment period. We can now work with more people than we have in the past, by putting them in small groups and shortening the time the families are enrolled in the program.

These would be some of the adjustments we would make to accommodate this level of funding.

You asked about food safety. Food safety is just one part of that program. It is also a part of our other nutrition programs, and we have other ongoing nutrition programs besides the EFNEP Program.

Senator **Burdick**. Has Extension considered expanding the EFNEP curricula to include food safety and health, as well as broadening the base of program participants, in lieu of costly new programs?

Dr. **Johnsrud**. We are revisiting that program in terms of what needs to be adjusted. Since it was first implemented, we have made some changes. I am not looking at it currently in terms of other programs, but, rather, what can we do to enhance that program.

Just recently, a task force has been formed who have worked with this program and this task force is addressing that very question.

YOUTH AT RISK

Senator **Burdick**. Dr. Johnsrud, I am impressed with the careful thought given to your youth at risk initiative, and I have a few questions about it.

Under your scenario for funding the youth at risk initiative, would the private sector matching contributions be solicited by the Extension Service at the national level, or would local project leaders be required to raise those funds?

Would in-kind contributions be counted toward meeting the match requirement?

Could local and State governments include in-kind contributions in their proposals?

To receive approval for a project proposal, would funding commitments be required in advance?

Dr. **Johnsrud**. Mr. Chairman, I am pleased to hear that you like the looks of the program. We are very pleased with the proposal.

We have experience nationwide at some sites in working in this area. That really is what prompted our confidence to initiate this kind of recommendation, because we think it is not only highly needed, but we have a good track record.

Relative to the specific matching, the answer to your question is yes, there is flexibility in how that matching can occur. We have had discussions with the State Extension directors and discussed this very thoroughly. We have, at the Assistant Secretary level, had conversations with major agencies, like HUD, and have had direct discussions with the Departments of Education and Labor. So it has really been well thought through.

We have talked about all of these arrangements, and the officials at HUD have made very clear to us that they are prepared to offer matching with in-kind support at the local level.

We are equally enthused and excited about the program.

FORMULA FUNDS

Senator **Burdick**. The 1991 budget proposes an increase of $4,263,000 for Smith-Lever 3 (b) and (c) formula support to the Extension Service.

What impact has inflation had on the Smith-Lever formula programs over the past decade, both in terms of available funds and program operations?

Have States contributed greater increases than the Federal Government?

Dr. **Johnsrud**. Mr. Chairman, this has been one of the troublesome areas for our partnership.

Our adjustments in the Smith-Lever 3 (b) and (c) over the years have not kept up with purchasing power because of inflation. Consequently, the Federal portion of the State and Federal budget combination has declined. Ten years ago the Federal portion was 34 percent of the total nationwide Extension System budget. Today it is approximately 30 percent.

The State partners have gone from 45 percent of that total budget 10 years ago to 49 percent. They have picked up and done quite well in terms of making up that decrease in purchasing power of the Federal appropriation.

The bottom line is that we have lost about 25 percent of the purchasing power of the 3(b) and 3(c) in the last 6 to 8 years.

We are just pleased that the State partnership has been able to increase its contributions.

I would further comment that the formula funds part of our budget is really what helps the partnership in maintaining our core scientific and extension staff. That is really why it is so critical. We are pleased to be able to recommend a modest, upward adjustment this year.

Senator **BURDICK**. Dr. Johnsrud, I want you to think very carefully before you answer my next question.

Will North Dakota State University continue its dominance in football next year? [Laughter.]

Dr. **JOHNSRUD**. That's a nice question to answer, and I think you and I would agree that their track record would indicate that they should do well. [Laughter.]

INDIRECT COSTS

Senator **BURDICK**. Dr. Jordan, the 1990 appropriations act included a requirement that for competitively awarded grants, indirect costs shall not exceed 25 percent of the total direct costs under each award.

Have you followed this requirement? What has been the result? Has this requirement resulted in the reduction of applications for such grants? Or has it changed the makeup of such applications?

Dr. **JORDAN**. Senator, it has not, to date; however, some of our programs still have closing dates in the future for receipt of the proposals. We do not believe that it has had a dramatic effect.

Certain institutions have indicated that they would not participate; but this has been a small number of institutions. We have every intention of complying with this requirement and are including it in our solicitations published in the Federal Register. We intend to follow it to the letter of the law.

FORESTRY RESEARCH

Senator **BURDICK**. You propose the reduction of $4,304,000 for payments to States under the Cooperative Forestry Research Program—or the McIntire-Stennis Program. Yet, the President has a $630 million increase for his America the Beautiful initiative—$264 million of which is in the Department of Agriculture.

It would seem to me that forestry research goes hand in hand with this initiative.

Would you not agree that forestry research is important for the President's initiative?

Dr. **JORDAN**. Indeed, it is important, Senator. In fact, it is one of the key areas for growth and development in the National Initiative for Research in Agriculture, Food, and the Environment. It is the combination of these programs, Senator, that we believe more than offsets that apparent reduction in the McIntire-Stennis Program.

So it is the fitting together of the formula program and the markedly expanded, competitively awarded program that we think will make a difference in the future.

SPECIAL RESEARCH GRANTS

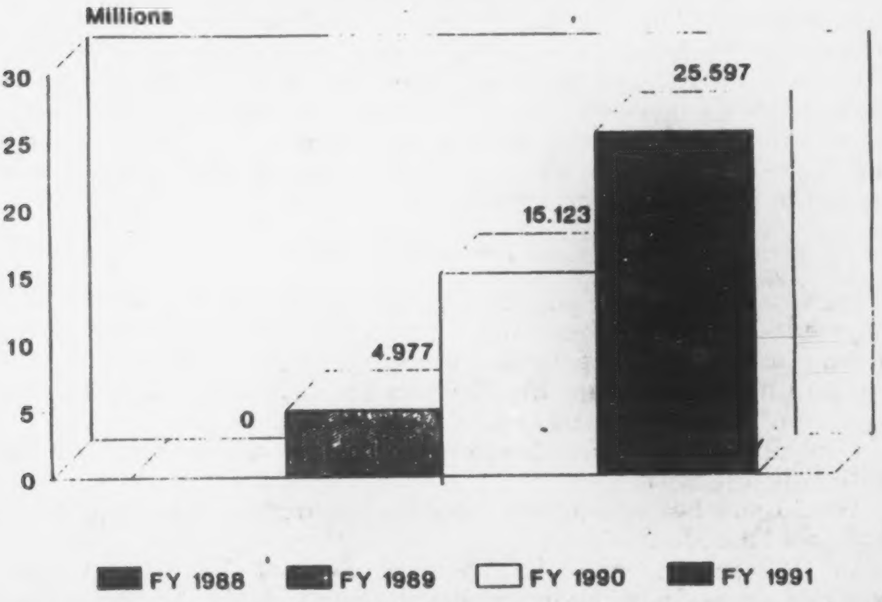
Senator **Burdick**. You propose an increase of $57 million in competitive research grants to bring the total to $100 million. You also state that this funding will be increased by $50 million per year. I believe this is a worthwhile initiative and would like to fund it if possible. However, at the same time, you cut special research grants and certain formula funds by an even greater amount. This causes me some concern.

Many of the special research grants are there to cover very specific areas of concern. I do not believe your position is that we are not going to do good research with these grants.

What is your position?

Dr. **Jordan**. We believe that the Special Research Grants Program, Senator, is a high-quality program. We have put alot of effort into assuring it. Every project that is funded through that program also undergoes a form of peer review.

The difference is that the recommendations in the President's budget for special grants, Senator, actually have been increasing. If I could, I would bring to your attention a graph.



SPECIAL GRANTS BUDGET REQUESTS

Four years ago, there was a complete zero in the President's recommendation in special grants. Three years ago, it was almost $5 million; and $15 million a year ago. For this program, recommended for fiscal year 1991, it is $25.5 million in the special grants arena that has been brought to the Congress. That is a substantial increase, Senator, in the President's recommendation.

We recognize that the Congress also has identified some programs for us to carry out, and we do that with great enthusiasm when you assign it to us.

COMPETITIVE RESEARCH GRANTS

Senator **Burdick**. One of the concerns about the competitive research grant proposal is geographical distribution. Can you guarantee that the competitive research grants will be somewhat evenly distributed on a geographical basis?

Please provide a summary of the geographical distribution of the competitive research grants for the last 2 years showing State, funding level, and research category.

Of course, you will have to supply that for the record.

[The information follows:]

Competitive Research Grants

The Cooperative State Research Service prepares an annual publication entitled Food and Agriculture Competitively Awarded Research Education Grants, which lists all grants awarded competitively by CSRS including Competitive Research Grants. This publication provides information on the grant recipients, amounts awarded and project titles. A copy of this publication for fiscal years 1988 and 1989 will be provided. The following table shows the amount of Competitive Research Grants each recipient received in fiscal years 1988 and 1989.

[Clerk's Note.—The publication "Food and Agriculture Competitively Awarded Research Education Grants" is on file with the subcommittee.]

Competitive Research Grants
Fiscal Year 1988 & 1989 Recipients
(In Dollars)

State/Recipient	Fiscal Year 1988 Actual	Fiscal Year 1989 Actual
ALABAMA		
Agricultural Experiment Station, Auburn University	$183,000	$0
Tuskegee University	0	100,000
ARIZONA		
Agricultural Experiment Station, University of Arizona	575,000	1,354,000
Agizona State University	120,000	0
Northern Arizona University	180,000	0
ARKANSAS		
Agricultural Experiment Station, Univ. of Arkansas	210,000	200,000
CALIFORNIA		
J. N. Bailey-Serres	0	33,000
Agricultural Experiment Station, Univ. of California, Berkeley	560,000	1,117,688
Chiron Corporaton, Emeryville	50,000	0
Patrick J. Neale, Berkeley	50,750	0
San Diego State University Foundation	60,000	0
University of California, Davis	2,668,000	1,887,712
University of California, Irvine	60,000	240,000
University of California, San Diego	0	270,000
University of California, San Francisco	180,000	0
University of California, Los Angeles	648,000	150,000
University of California, Riverside	900,385	595,000
University of California, Santa Barbara	115,000	180,000
University of California, Santa Cruz	146,250	0
Salk Institute for Biological Studies	0	90,000
Stanford University	410,000	560,000
USDA-Agricultural Research Service	50,000	280,000
COLORADO		
Agricultural Experiment Station, Colorado State University	375,000	234,000
University of Colorado, Boulder	110,000	0
USDA-Agricultural Research Service	120,000	150,000
CONNECTICUT		
Agricultural Experiment Station, New Haven	30,000	0
Agricultural Experiment Station, Univ. of Connecticut, Storrs	207,000	90,000
DISTRICT OF COLUMBIA		
Carnegie Institution of Washington	19,000	100,000
Georgetown University	91,709	0
DELAWARE		
E.I. du Pont de Nemours Co., Inc.	0	100,000
Agricultural Experiment Station, University of Delaware	0	100,000
FLORIDA		
Agricultural Experiment Station, University of Florida	715,988	1,524,000
Tampa Bay Research Institute	0	220,000
University of South Florida	110,000	0
GEORGIA		
Agricultural Experiment Station, University of Georgia	975,000	470,000
Emory University	73,775	0
Georgia Institute of Technology	100,000	0
USDA-Agricultural Research Service	507,000	530,000

State/Recipient	Fiscal Year 1988 Actual	Fiscal Year 1989 Actual
HAWAII		
Agricultural Experiment Station, University of Hawaii	$30,000	$0
IDAHO		
Agricultural Experiment Station, University of Idaho	191,800	0
ILLINOIS		
Agricultural Experiment Station, University of Illinois	1,005,207	1,072,000
Illinois State University	0	60,000
Northern Illinois University	90,000	0
Southern Illinois University	0	305,000
University of Illinois, Champaign	0	280,000
University of Illinois at Chicago	150,000	0
Northwestern University	55,000	60,000
University of Chicago	93,000	197,000
USDA-Agricultural Research Service	616,000	461,000
INDIANA		
Agricultural Experiment Station, Purdue University	898,543	1,165,257
Fort Wayne State Developmental Center	140,471	0
University of Notre Dame	100,000	0
IOWA		
Agriculture & Home Economics Experiment Station, Iowa State University	521,550	880,000
University of Iowa	50,000	100,000
KANSAS		
Agricultural Experiment Station, Kansas State University	647,000	440,000
University of Kansas	100,000	0
University of Kansas Medical Center	200,000	0
KENTUCKY		
Agricultural Experiment Station, University of Kentucky	326,760	645,000
Randy Hunt	0	66,000
LOUISIANA		
Agricultural Experiment Station, Louisiana State University	120,000	100,000
Louisiana State University Medical Center	0	272,334
USDA-Forest Service	0	100,000
MAINE		
Agricultural Experiment Station, University of Maine	74,130	120,000
MARYLAND		
Agricultural Experiment Station, University of Maryland	403,635	660,000
Johns Hopkins University	120,000	0
Bionetics Research, Inc.	99,587	0
Henry M. Jackson Foundation for the Advancement of Military Medicine	150,000	0
USDA-Agricultural Research Service	533,000	787,000
MASSACHUSETTS		
Agricultural Experiment Station, Univ. of Massachusetts	869,096	413,898
Amherst College	0	100,000
Boston University	145,272	0
Harvard University	387,000	0
Marine Biological Laboratory	175,000	0
Massachusetts General Hospital	180,000	0
MICHIGAN		
Agricultural Experiment Station, Michigan State University	1,996,946	1,047,410
University of Michigan	200,000	352,000
Michigan Technological University	45,000	0

State/Recipient	Fiscal Year 1988 Actual	Fiscal Year 1989 Actual
MINNESOTA		
Agricultural Experiment Station, University of Minnesota	$1,275,583	$836,442
MISSOURI		
Agricultural Experiment Station, University of Missouri	808,900	750,012
Jeffrey A. Hall	0	60,000
Northeast Missouri State University	0	65,000
Washington University	175,000	150,000
MONTANA		
Agricultural Experiment Station, Montana State University	0	158,000
University of Montana	100,000	0
NEBRASKA		
Agricultural Experiment Station, University of Nebraska	294,300	648,545
NEVADA		
Agricultural Experiment Station, University of Nevada	100,000	323,000
NEW HAMPSHIRE		
Agricultural Experiment Station, Univ. of New Hampshire	120,000	0
Dartmouth College	0	100,000
NEW JERSEY		
Agricultural Experiment Station, Rutgers University	416,300	343,000
University of Medicine and Dentistry of New Jersey	140,000	215,000
NEW MEXICO		
Agricultural Experiment Station, New Mexico State University	200,000	0
NEW YORK		
Agricultural Experiment Station, Cornell University	1,798,924	2,550,938
Albany Medical College of Union University	129,490	0
Boyce Thompson Institute	360,000	145,000
CUNY Research Foundation on Behalf of Baruch College	0	180,000
City Univ. of New York Res. Fdn. & College of Staten Island.	0	65,000
College of Environmental Science and Forestry, State University of New York	218,348	0
Health Science Center at Syracuse, State Univ. of New York	95,000	0
Skidmore College	5,000	0
New York University	100,000	0
North Shore University Hospital	152,388	0
Rensselaer Polytechnic Institute	0	125,000
Research Foundation of State University of New York	0	90,000
State University of New York at Buffalo	65,000	100,000
State University of New York at Stony Brook	100,000	0
U.S. Department of Energy	0	350,000
Union College	69,000	0
NORTH CAROLINA		
Agricultural Experiment Station, North Carolina State University	1,280,042	294,000
Bowman Gray School of Medicine of Wake Forest University	200,000	0
Duke University	80,000	0
University of North Carolina at Chapel Hill	0	210,000
NORTH DAKOTA		
Agricultural Experiment Station, North Dakota State Univ.	100,000	0
OHIO		
Agricultural Experiment Station, Ohio State University	594,200	811,408
University of Cincinnati College of Medicine	0	203,000
OKLAHOMA		
Agricultural Experiment Station, Oklahoma State University	423,220	320,000
University of Oklahoma	150,000	0

State/Recipient	Fiscal Year 1988 Actual	Fiscal Year 1989 Actual
OREGON		
Agricultural Experiment Station, Oregon State University	$669,525	$845,157
University of Oregon	200,000	0
PENNSYLVANIA		
Agricultural Experiment Station, Pennsylvania State Univ.	1,177,225	643,000
Drexel University	0	100,000
Temple University School of Medicine	0	230,000
Thomas Jefferson University	208,041	0
University of Pennsylvania	0	220,000
USDA-Agricultural Research Service	0	192,759
USDA-Forest Service	0	152,102
RHODE ISLAND		
Brown University	220,000	0
Gordon Research Conference	42,450	5,000
SOUTH CAROLINA		
Agricultural Experiment Station, Clemson University	108,602	50,000
SOUTH DAKOTA		
Agricultural Experiment Station, South Dakota State Univ.	97,700	100,000
TENNESSEE		
Agricultural Experiment Station, University of Tennessee	447,000	160,000
U.S. Department of Energy, Oak Ridge	210,000	143,000
Vanderbilt University	200,000	0
TEXAS		
Agricultural Experiment Station, Texas A&M University	1,056,000	367,500
Baylor College of Medicine	450,000	0
Texas Tech University	65,000	205,205
University of Texas	150,000	50,000
University of Texas Health Science Center	0	75,000
University of Texas Medical Branch	0	135,422
William Marsh Rice University	0	147,272
UTAH		
Brigham Young University	0	128,950
Agricultural Experiment Station, Utah State University	0	381,050
University of Utah	140,000	120,000
VERMONT		
Agricultural Experiment Station, University of Vermont	50,000	50,000
VIRGINIA		
Agricultural Experiment Station, Virginia Polytechnic Institute and State University	790,300	60,000
WASHINGTON		
Agricultural Experiment Station, Washington State University	580,000	835,008
University of Washington	105,000	352,500
WEST VIRGINIA		
Agric. & Forestry Exper. Station, West Virginia University	0	180,000
WISCONSIN		
Agricultural Experiment Station, University of Wisconsin	2,192,574	1,944,199
Medical College of Wisconsin	60,000	345,000
WYOMING		
Agricultural Experiment Station, University of Wyoming	98,690	80,000
Subtotal	40,168,556	37,650,768
Federal administration (4%)	1,694,880	1,588,640
Small Business Act	508,464	476,592
Total	42,372,000	39,716,000

CONTINUATION OF COMPETITIVE RESEARCH GRANTS

Senator **Burdick**. Can you guarantee that this research will continue?

Dr. **Hess**. Senator, we will be providing you with a report on the past distribution of the competitive research grants.

As I have looked at that data, there is a relationship between the number of competitive grants and the size of the university. But that, in part, is due to the number of scientists that are in those universities.

Another relationship is that the numbers of grant proposals submitted are related to the number of grants that are approved. If you do not submit a grant proposal, then it is not possible to receive one.

So, if we look at the competitive grants program, as run by the Department of Agriculture, and compare it to other grant programs, such as the National Science Foundation or the National Institutes of Health, we find that the Competitive Grants Program by USDA is distributed much more uniformly geographically. In fact, I think almost every State has received some of the Competitive Grants Program from this program. A few States have not, but most have.

Dr. **Jordan**. Only one State in the last 5 years, Senator, has failed to receive a competitive grant.

Dr. **Hess**. Also, Senator, we are including in our proposal on the National Research Initiative the strengthening grant component, which will enable those universities who have not been successful or as successful in competing for grants to receive funds to increase their competitiveness.

We hope that it will also address the issue that you have expressed concern about.

Dr. **Jordan**. To strengthen that, Senator, we have key grants people conducting workshops at institutions of higher learning, many in your part of the country as well, to help faculty be very competitive in their development of proposals.

Senator **Burdick**. On the same issue, I have one last question.

The conference report accompanying the 1990 appropriations act requested a report regarding the geographical distribution of competitive research grants. This report was due January 1, 1990.

Has this report been submitted?

Dr. **Jordan**. Senator, this report is in the final stages of clearance through the Department and OMB. It should be available to the Congress very shortly.

Senator **Burdick**. What do you mean by shortly?

Dr. **Jordan**. As soon as OMB clears it, I think, Senator.

Senator **Burdick**. That still leaves me in the dark. Is it a month?

Dr. **Jordan**. We are talking about just a couple of weeks.

SUBMITTED QUESTIONS

Senator **Burdick**. OK.

Additional questions will be submitted for written response by the following Senators: Burdick, Cochran, Kasten, Hatfield, McClure, Bumpers, Harkin, Cranston, Burns, Nickles, Sarbanes, Kerrey, Grassley, Specter, Graham, and Mack.

We ask you to respond to them within 5 days.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

AGRICULTURAL RESEARCH SERVICE

QUESTIONS SUBMITTED BY SENATOR BURDICK

NARCOTIC PLANTS

Question: You propose more than a three-fold increase for research on the eradication of illicit narcotic crops. Tell me more about this proposal. What kind of research are you doing and at what crops are you looking?

Answer: We are conducting research on all aspects of narcotic crops including basic plant physiology, biochemistry of drug production in the plants, and development of herbicide and biocontrol technology to control illicit drug crops. All major drug crops will be included: coca, marijuana, and opium poppy.

Question: Where is the research currently being done and where do you propose to do additional research? Is it all in this country?

Answer: The research effort will be centered at the Beltsville Agricultural Research Center and other U.S. locations as appropriate. The only research outside the U.S. is being conducted by the Bureau of International Narcotics Matters of the Department of State, with ARS scientists serving as technical advisors.

ARS RESEARCH FACILITIES

Question: Last year, you completed an in-house assessment of the repair and maintenance needs and costs of ARS facilities that are owned or under a long-term lease. That assessment identified $300-400 million worth of needs at 109 institutions:

How much money is included in your budget for this work?

Answer: For Beltsville modernization $16.0 million is included in the budget. In addition, $28.6 million is included for three other priority facilities.

Question: Why are you proposing the construction of new facilities before this modernization work is completed?

Answer: These facilities are required for the conduct of National priority research, specifically: we are proposing $4.0 million for a total of $12,250,000 for new construction at Fort Collins, Colorado, to provide additional seed storage capacity since the existing facility is filled to its capacity.

We are proposing $10.1 million for new construction at Yakima, Washington. Since the lease on existing facilities expires in September 1992, the lessor will not extend lease; and the facility is not suitable for conducting laboratory research.

New construction is proposed at Athens, Georgia, to provide expansion of existing facilities needed for high containment poultry related research.

Question: Please provide the budget for this work by location and show how it compares to your assessed need.

Answer: Currently only $21.0 million is budgeted for modernization as follows:

o BARC	$16.0 million - appropriation request
o Albany	$ 2.5 million - Agency repair and maintenance
o New Orleans	$ 2.5 million - Agency repair and maintenance

Assessed needs for above is:

o BARC	$260 million
o Albany	$ 12 million
o New Orleans	$ 26 million

Unbudgeted assessed needs for the remaining 106 Locations are $102 million.

HUMAN NUTRITION RESEARCH

Question: A. Please provide a summary of ARS' human nutrition research for the last two years showing location, focus and funding level of the research.

Question: B. Also, for the ARS human nutrition labs, what additional funding needs at each location could be used for them to reach their full potential?

Answer: The funding for each of the USDA/ARS Human Nutrition Research Centers for fiscal years 1988, 1989, and 1990, together with the staff and funding required for operating at full potential, is given in the attached table.

The focus of the research carried out at each location is as follows:

Beltsville Human Nutrition Research Center, Beltsville, MD — Composition of foods and bioavailability of food nutrients required by humans; energy metabolism and energy requirements for weight maintenance; dietary reduction of risk factors for nutrition-related chronic disorders such as coronary heart disease, cancer, and maturity onset diabetes; human requirements and metabolic roles of carbohydrates, dietary fibers, lipids, zinc, chromium, selenium, vitamin E, and vitamin A; and family economics.

Grand Forks Human Nutrition Research Center, Grand Forks, ND — Nutritional requirements for zinc, magnesium, boron, copper, and other minor elements and their relationship to optimal health, function, and performance; physiological and biochemical factors influencing minor element requirements in all age groups and biological availability of minerals.

Human Nutrition Research Center on Aging at Tufts University, Boston, MA -- Nutritional requirements of the elderly for optimal health, function, and performance; the relationship of nutrition to the aging process; and the role of diet in the prevention of major chronic degenerative conditions. Emphasis has been given to the role of diet on bone health, prevention of cataracts, and immune response; and importance of exercise on body composition. The requirements and/or tolerances of elderly for folacin, vitamin B-12, vitamin A, vitamin B-6, vitamin K and vitamin D were studied.

Children's Nutrition Research Center at Baylor College of Medicine, Houston, TX -- Nutrient requirements in infants, children, pregnant and lactating women; role of diet for optimum growth and physical and mental development. Emphasis has been on use of stable nonradioactive isotopes as markers in studies related to energy, protein, iron, and calcium requirements for growth of young infants and lactation in women.

Western Human Nutrition Research Center, San Francisco, CA -- Development of reliable, efficient, inexpensive methods for defining nutritional status; effects of marginal nutrient levels on performance and immune function; developing nutritional criteria for evaluation of intervention programs; and conducted research on human nutritional requirements, including omega-3 fatty acids, vitamin C, folacin, and molybdenum.

Northern Regional Research Center, Peoria, IL -- Metabolism of labeled fatty acids; and effect of cereal fibers on absorption of minerals.

Western Regional Research Center, Albany, CA -- Ways to improve availability of nutrients from wheat, rice and barley products.

Soil, Plant and Nutrition Laboratory, Ithaca, NY -- Improvement of the mineral composition of plant foods through better varieties or management of plants.

Agricultural Research Service
Human Nutrition Research

Estimated Funds ($ in Millions)

Center	FY 88 Avail.	FY 89 Avail.	FY 90 Avail.	Current (FY 90) Staff	Staff & Funds for Full Operation
Beltsville HNRC (Beltsville, MD)	7.35	7.31	7.48	35	Full staffing capacity of 42 scientist years and $12 million
Grand Forks HNRC (Grand Forks, ND)	6.32	6.33	6.59	12	Full staffing capacity of 24 scientist years and $10 million

Center	FY 88 Avail.	FY 89 Avail.	FY 90 Avail.	Current (FY 90) Staff	Staff & Funds for Full Operation
Human NRC on Aging at Tufts University (Boston, MA)	12.99	13.35	13.54	1	Full staffing capacity of 50 scientist years and $18 million
Children's NRC at Baylor College of Medicine (Houston, TX)	6.99	8.34	9.63	2	Full staffing capacity of 50 scientist years and $15 million
Western HNRC (San Francisco,CA)	3.95	4.01	4.22	12	Full staffing of 40 scientist years and $12 million.
Other ARS Human Nutrition Research	2.65	2.66	2.67		

POTATO RESEARCH

Question: Please provide a detailed status of your potato research including the location of research, including the funding for 1989, 1990, and proposed for 1991, as well as the categories of research, e.g., type of pest, disease, or other focus.

Answer: The following table shows estimated funding for potato research in FY 1989, FY 1990, and FY 1991:

Location	FY 1989 Available	FY 1990 Available	FY 1991 Estimated
Albany, CA	$ 503,300	$1,039,200	$1,039,200
Athens, GA	- -	38,700	38,700
Aberdeen, ID	306,200	300,500	300,500
Kimberly, ID	395,600	388,200	388,200
Orono, ME	261,800	257,000	257,000
Beltsville, MD	2,052,900	2,053,100	2,053,100
Frederick, MD	70,900	69,500	69,500
East Grand Forks, MN	1,221,900	1,162,800	1,162,800
Ithaca, NY	237,000	259,900	259,900
Wooster, OH	23,600	23,200	23,200
Wyndmoor, PA	896,100	869,300	869,300
Prosser, WA	758,000	822,400	822,400
Yakima, WA	451,500	486,700	486,700
Madison, WI	557,700	547,700	547,700
ARS Headquarters	1,143,200	1,518,100	1,518,100
Total	$8,879,700	$9,836,300	$9,836,300

In FY 1990, we plan to obligate $523,800 for control of early dying, $555,200 for control of ring rot disease, $185,700 on potato scab research, $452,200 on potato dark end, $2,771,300 on marketing research, $1,630,200 on development of new varieties, $394,600 on control of aphids, and $935,200 on control of Colorado potato beetle.

Question: How does your research fit in with the long-term proposal developed by the National Potato Council?

Answer: Our current potato research programs address all of the industry problems identified by the National Potato Council (NPC). We annually meet with the NPC Research Committee to decide how available funds should be allocated to strengthen existing State/Federal research programs to solve production and marketing problems. We are very pleased with the results of this cooperative research program.

PLANT STRESS LAB

Question: The 1990 appropriations act provided $500,000 for construction at the Plant Stress and Water Conservation Laboratory in Texas. How will these funds be used?

Answer: In 1990, $500,000 was appropriated for construction of the Plant Stress and Water Conservation Laboratory complex. ARS intends to build a headhouse/greenhouse with this funding.

Question: During hearings last year, there was a discussion about reducing the scope of the plant stress facility. Please provide the Committee with an update on this proposal. What is the status of planning and designing the less costly facility as proposed?

Answer: In view of the demonstrated successful program operations at the Soil Tilth Laboratory in Ames, Iowa, the Agency wants to adapt this design concept to Lubbock. Based on the need for 80,000 square feet of facility complex, approximately $17 million is required. This is approximately 20,000 square feet less than earlier planning. Master planning of the proposed lease site for utilities and facility placement should be completed by the fourth quarter of FY 1990 presuming that a lease agreement is signed by ARS and Texas Tech in April 1990. A contract for an engineering study to determine the feasibility and cost of adapting the plans and specifications for the recently completed Soil Tilth Laboratory in Ames, Iowa, to a new site for a Plant Stress Laboratory in Lubbock, Texas, should also be complete by the fourth quarter of FY 1990.

PLUM ISLAND ANIMAL DISEASE CENTER

Question: Please outline the current status of the planned consolidation of facilities project at the USDA Plum Island Animal Disease Center. Also, what efforts are underway to develop a long-range plan for the repair and maintenance of the facility.

Answer: A. BACKGROUND: The UDSA's Plum Island Animal Disease Center (PIADC) is located on a Federally-owned island approximately two miles off the eastern tip of Long Island, New York.

The primary function of PIADC is to conduct research on animal diseases that do not exist in the United States, but pose a continuing threat to the U.S. livestock and poultry industries. Congress has mandated that research on certain exotic diseases be performed off the U.S. mainland.

B. Mission: The overall mission of the Center is to protect the U.S. animal industry and our exports from economic losses caused by foreign animal diseases.

The Agricultural Research Service (ARS) mission is to develop new technologies to prevent the outbreak of foreign animal diseases in the U.S. Examples of diseases studied are--African Swine Fever, Foot-and-Mouth-Disease, and Hog Cholera. Other research is aimed at developing molecular vaccines, anti-viral drugs and disease resistant animals.

The Animal and Plant Health Inspection Service (APHIS) mission at PIADC is to perform responsibilities for the diagnosis of foreign animal diseases, including reagent preparation, methods evaluation or adaptation, training in methods for animal disease diagnosis, and other related services.

C. STATUS OF CONSOLIDATION CONSTRUCTION: Several years ago, ARS embarked on a plan to upgrade facilities at the Plum Island Animal Disease Center through a combination of renovation and new construction. FY 1976 Congress appropriated funds for the renovation and construction of laboratories that would satisfy ARS and APHIS requirements. A number of problems arose during the construction, and in FY 1979 the contractor was placed in default which led to legal action and the eventual recovery of over $13.6 million. Since 1985 attention has been focused on developing a consolidated ARS/APHIS facility which would meet the needs of both agencies in the most efficient possible manner. In June 1989 the Department advised the Congress that detailed planning for the consolidation would proceed and that the Committee would be kept fully informed.

The FY 1989 Appropriations Act authorized that funds recovered in the judgment against the contractor could be used for the planned consolidation construction. The report language accompanying this action specified that the cost of proposed facilities should not exceed $9 million. In the process of developing the detailed plan to implement the consolidation it has become apparent that biosecurity safeguards and space requirements of the two agencies not previously considered had to be provided in the new structure. After adding the required minimum biocontainment features into the space being renovated for the Foreign Animal Disease Diagnostic Laboratory, the consolidated construction project is now estimated to cost $18 million.

D. FINANCING OF CONSOLIDATION/CONSTRUCTION: The two agencies plan to share the consolidation/construction project costs and will continue to work closely with the Committee on this matter.

E. ADDITIONAL REQUIREMENTS: In 1989 ARS and APHIS initiated an effort to develop a long-range plan for the repair and maintenance of the facilities. An architectural and engineering firm has been commissioned to develop a Facilities Deficiency Plan which will identify immediate and long-term needs along with costs, which can be used for planning and budgetary purposes. The plan will consider needs covering all the facilities, major equipment, utility systems, and infrastructure changes required to bring the Plum Island facility up to a responsible degree of sophistication. Examples of obvious needs already identified are:

(a) Renovation of the Orient Point, Long Island, office and dock area including reconstruction of pier and replacement of bulkhead material.
(b) Replacement of marine vessels providing passenger and cargo services to the Island.
(c) Renovation of dock area and guardhouse at Plum Island including bulkhead removal and replacement.
(d) Installation of electrical self-generation capacity, fuel line renovation and replacement of underground fuel tanks.
(e) Additional waste disposal capability including replacement of existing landfill.
(f) Improved animal holding facilities.
(g) Additional safety equipment including security barriers, fire detection/sprinkler/special control equipment and fire truck.
(h) Continuing and substantial commitment for repair and maintenance to steam lines, sewers, water pipes, electrical service, air filtration, and other support systems including all weather roads are required.

When completed, the Deficiency Study will be used by both agencies to establish priorities and the sequencing of work for future fiscal years. ARS and APHIS plan to share the repair and maintenance costs of the joint use facilities. Obviously, funding needs at Plum Island will have to compete in future years with the needs of other important programs.

PLANT GENOME MAPPING

Question: The ARS Plant Genome Mapping Program can be a very costly long-term undertaking and there needs to be a sound understanding concerning the breadth and scope of the science involved and how the program will be managed. Please provide the Committee with your long-term plan and specify objectives, achievements, and milestones for program achievement. Also, provide the incremental financial requirements to meet your major milestone objectives.

Answer: The long-term plans with objectives, achievements, and milestones in conjunction with the budget are given below:

Goal Statement--The goal of the USDA Plant Genome Mapping Project is to address concerns about the environment (for example, global changes and water quality) and to promote stability and profitability of production, improved quality of food/fiber/feed, maintenance of germplasm resources, and development of new crop plants and forest species. To accomplish this goal, the Plant Genome Mapping Project will foster and coordinate research leading to the ability to identify, characterize, alter, and rapidly and precisely manipulate genes that specify underlying traits of agricultural importance to meet society's needs. Finding, describing through sequencing, and transfer of important genes are crucial for the effective exploitation of genetic resources. This gene information is required to advance agricultural biotechnology from the USDA Germplasm Program through gene specification and ultimately product release. This goal recognizes the fact that agriculture is an industry based on growing plants for food, feed, fiber, and biomass for ever-changing market place niches and human needs.

Two major objectives were identified for the Plant Genome Mapping Program: (1) mapping of the plant genomes and identification, sequencing, and expression of genes of agricultural importance, and gene transfer technology; and (2) management of data, information, and resources.

Achievements--The Plant Genome Mapping Program goals will be met by the research of awardees through open competition for multidisciplinary grants from the scientific community. The grants will specify targets, such as mapping levels, sequencing intensities, gene systems to be addressed. Their results will be tracked and evaluated on the basis of science performed and specified targets met on an annual basis.

The multidisciplinary groups will consist of breeders/geneticists, molecular geneticists, plant physiologists/biochemists and information persons.

Objective 1--The broad restriction fragment length polymorphism mapping those species, such as some vegetable crops, forest trees, and others that have little or no mapping information, will be determined by a panel of peers. Those plants that have considerable mapping data and require intensification of analysis will also be addressed.

Subobjective a. Construction of broad maps of crop plants--This subobjective will be achieved by using restriction fragment length polymorphism (RFLP) technology. It is a rapid method that allows the scientist to determine rather broad genetic similarities and differences and initiate assignment of DNA fragments on the chromosomes and thus begin the mapping process.

Subobjective b. Detailed mapping of chromosomes and specific gene regions of the DNA, characterization and technology improvement--Regions of the chromosome and particularly gene locations will be mapped and intensely probed. Gene regions will be located and the DNA components related to desired genes will be removed from the chromosome and sequenced. Examples of genes/gene systems are those genes that are relevant to agriculture such as resistance to disease and insects, salinity and drought tolerance, and increased vigor. Confirmation of the veracity of transferred genes and their expression will be addressed by physiologists/ biochemists in association with the breeding and geneticists. Lack of desired expression will be, in most cases, a result of abnormal metabolism directed by incorrect gene constructs.

The USDA genome research project will maintain close contact with technology developments with the human genome projects in order to avoid duplication of efforts and utilize advances as rapidly as possible. New technologies will also be developed by the USDA effort. Some of the new technologies that must be developed are automation of laboratory procedures, robotic reading and handling of laboratory results, and developing DNA probing methods without the use of radioactive tracer technology. These approaches will reduce cost and increase processing safety.

Objective 2--Database and Resource Management - The plant genome research effort will serve as a clearinghouse for the information pertinent to plant genome mapping research including databases, genetic resource material, research activities, meetings, and publications. Scientists will be able to rapidly obtain desired information electronically through the Office of Plant Genome Mapping in conjunction through the computerized referral systems.

Grants and contracts will be awarded to the tripartite scientific community previously specified. The grant proposals and contracts will request the development and demonstration of networking other genome related databases as well as integration capabilities of various plant databases. Integration will be encouraged from the genetic resource repositories, Germplasm Resources Information Network (GRIN), DNA sequences, DNA probes, proteins, amino acids, promoters, through released lines. This capability of complete integration is not available to scientists and is needed for efficient and effective information exchange.

Budget. An effective USDA effort in the area of Plant Genome Mapping will require an estimated $250 million of new monies appropriated over a 10 year period. In FY 1991, $18.7 million is being requested for the following purposes:

- $14.0 million for gene mapping and gene location and transfer of both broad and dense restriction fragment lengths polymorphism (RFLP).
- $3.0 million for needed database/information.
- $1.7 million for genome management and operations. An average of $25 million in incremental funding each year, beginning in FY 1992 through FY 2000 will be used to further strengthen various projects and program goals under the two basic program categories: Gene mapping, Location and Transfer (70% of total) and Database Management and Integration (30% of total).

The challenge of addressing at least 40 important genetic traits, such as disease resistance and drought, heat, and salinity tolerance can be met and explained at the chromosome and molecular levels through multidisciplinary grants. There are more important traits that need to be determined; however, the findings derived from this activity will allow translation and application across many of those hundreds because of the conservativeness of plant DNA. Advances in technological aspects of automation, robotics, and innovative laboratory methodologies will be partly the responsibilities of this effort. Recording these advances involves the establishment of an information system.

The proposed budget allocation for databases will be used to develop software for integrating and networking across repositories of genetic stocks, DNA sequences, proteins, promoters, amino acids formed in academia, industry, and government activities.

The budget for the genome office will be a line item for ARS. The director with five professionals and support staff will manage the genome office. The CSRS will also be involved in the planning process. Responsibilities of the office are developing proposal descriptions, panel selection for grant reviews, establish and run meetings, and coordinate plant gene mapping and information activities.

PLANT GENOME MAPPING COORDINATION WITH RELATED PROGRAMS

Question: How will the plant genome mapping program be coordinated with related programs administered by the National Science Foundation, the National Institute of Health, and other federally-sponsored programs? How is USDA's program different from the human genome mapping program?

Answer: Coordination among federally-sponsored genome programs will be accomplished through representatives and liaison persons from the USDA Plant Genome Research Program serving on and working with the Department of Energy, the National Institutes of Health, and the National Science Foundation committees. Members from those committees also serve on the Plant Genome Research Science and Technology Committee. The USDA's program is different from the human genome programs because plants offer opportunities to work with larger populations necessary to address population genetics probleme. The life cycles of plants are shorter than human reproduction and aging stages. Plants have a multitude of genomic structures not found in humans such as polyploids, aneuploids, and other chromosonal configurations that can be reproduced at will.

PLANT GENOME MAPPING AND COMPETITIVE GRANTS

Question: Please clarify the responsibilities and functions between the ARS plant genome mapping program and the existing plant genetics and molecular biology program administered by the competitive grants program within USDA. What overlap exists in these two programs?

Answer: The FY 1991 budget which proposes the establishment of the National Research Initiative of which the plant genome program is a part, also proposes the termination of the USDA competitive research grants program as we now know it. The plant genome part of the Initiative will be administered by ARS and the remainder of the Initiative will be administered by CSRS. All Initiative projects will be competitively selected with awards based upon peer reviews. However, plant genome projects will be highly targeted toward specific research and gene mapping goals and deliverable research results or products (maps) defined by program managers, where as projects within the plant genetic/molecular biology portions of the Research Initiative will continue to be broadly favored on fundamental areas such as genetic principles, gene structure and functions, gene expression, etc. Gene Mapping per se will be limited to the plant genome program. The existing administrative support office which handles all business aspects of the current USDA grants program will continue to provide support for both the new plant genome program and the remainder of the Research Initiative program.

QUESTIONS SUBMITTED BY SENATOR HARKIN

NEW NON-FOOD PRODUCTS RESEARCH AS A PRIORITY WITHIN ARS

The Senate FY 90 Agriculture Appropriations Committee report contained a subsection entitled: "New nonfood uses." It provides that the department is to make substantial progress towards the reallocation of no less than $50,000,000 of the ARS budget to research on new nonfood uses for traditional food commodities.

Question: What progress has been made towards that goal?

Answer: A planning activity has been initiated to identify ways of accelerating research toward developing new uses of value-added products from agricultural commodities. A report will be provided to the Subcommittee by April 30, 1990.

Question: What is the current schedule of actions that the Department intends to take to implement this part of the Committee report?

Answer: During 1990, up to $10 million from current research projects at the Regional Research Centers will be identified for redirection into research on industrial products at the same location and from the same general program area. We will continue to look for opportunities for redirection of ongoing projects and for budget additions.

HUMAN NUTRITION CENTERS PROGRAM

Question: Do you feel an additional center which focuses its research efforts on the linkage between production, processing and consumption would be beneficial to the ARS Human Nutrition Center Program?

Answer: At present, the Beltsville Human Nutrition Research Center and the ARS Regional Research Centers and other laboratories conduct research to link production, processing and consumption and solve human nutrition problems such as reducing the fat content in meat products. We do not believe there is a need for an additional center with such a focus.

Question: If the Congress should allocate an overall increase in the ARS Human Nutrition Center Program, would the ARS look favorably to the Human Nutrition Center at Iowa State University becoming a part of the program?

Answer: The ARS is unable to adequately fund its present human nutrition research centers at the level required for most efficient productivity. Until this situation is corrected, it would not seem prudent to plan for additional centers.

CORN RESEARCH POSITIONS

Question: I have been contacted by the Iowa Corn Growers and a number of companies concerning the filling of the positions left vacant when Arnel Hallauer, an ARS corn breeder researcher and Wilber Guthrie, an ARS entomologist retired. All of those who have contacted me, and the number is significant, have indicated that the research done by these fine scientists was very important. And, they would believe that these positions should be filled as soon as possible.

I would also note that the ISU College of Agriculture and the Ag Experiment Station have assured the Iowa Corn Growers that they intend to continue their support of these programs and plan improvements in facilities that would enhance the support of these programs.

I would appreciate your providing me with an estimate of when these positions will be filled.

Answer: The Agency plans to fill the vice-Guthrie position this fiscal year. Due to financial constraints and recently imposed across-the-board reductions, ARS does not plan to fill the vice-Hallauen position before the end of FY 1991; rather, resources will be used to maintain the viability of the ongoing corn programs at Ames and Ankeny.

QUESTIONS SUBMITTED BY SENATOR KERREY

CHINCH BUGS

Question: Nebraska's major grass crops, particularly sorghum, have been devastated by an infestation of chinch bugs the past few years. A 1989 University of Nebraska study documented 1989 losses of more the $12.5 million in 14 southeastern Nebraska counties.

In December I sent you a letter inquiring about the Department's chinch bug research efforts. In your January response you indicated that ARS supports UNL breeding line research and directed me to pursue the matter with the University's head of the Department of Entomology. I contacted Dr. Foster about chinch bug research at the University and discovered that there are NO ARS entomologists for ANY crop at UNL.

The chinch bug problem became so severe that the sorghum and wheat boards and other entities extended grants to the University to begin a chinch bug research program. The University used the funds to hire a post-doctoral student to discover the extent of the damage and to analyze the problem. However, so little is known about the pest and its habits that the research is essentially at square one.

Answer: ARS research on sorghum at Lincoln is directed toward developing improved grain- and forage-type breeding lines. This work is carried out by ARS scientists of the Wheat and Sorghum Research Unit. ARS does not employ an entomologist to work on Chinch Bugs at Lincoln.

GENE MAPPING OF LIVESTOCK

The National Cattlemen's Association passed a resolution at their 1990 annual meeting encouraging both the USDA and the Congress to provide support for mapping the genome of beef cattle at the U.S. Meat Animal Research Center, Clay Center, Nebraska. The Nebraska Cattlemen passed a similar resolution at their 1989 annual meeting.

I have reviewed, with members of the cattle industry, the potential long-term impact of genetic engineering in farm animals. It seems to me this area of research could potentially improve the quality and safety of our livestock products for consumers.

Question: Do we have the necessary technology and scientific competence available for gene mapping of livestock?

Answer: ARS has the scientific competence and technology required for gene mapping of livestock. Part of the current program in animal genetics at U.S. Meat Animal Research Center (USMARC) involves gene identification and germplasm conservation of livestock.

Question: I am told approximately 85 percent of the genes in swine and cattle are identical to those in the human. Thus, much of the gene mapping in humans and the technology being developed in human research by the National Institutes of Health can be directly applied by scientists working with livestock. Is this correct, Dr. Plowman?

Answer: We believe 85 percent is correct. Gene libraries for livestock have been established in our laboratories. Gene probes are available for cattle and other species, and we have the ability to splice, clone, and insert genes to modify the genetic makeup of livestock. Adequate information on the gene map of livestock would allow us to effectively use these technologies to improve livestock.

Question: Is mapping the genome in cattle an appropriate project to be undertaken by the Agricultural Research Service?

Answer: Genome mapping is an appropriate project for ARS. This would be a long-term program, and the research would have application to the national livestock industries. Populations of livestock required for gene mapping already exist at USMARC.

Question: Is the U.S. Meat Animal Research Center at Clay Center an appropriate location for the Agricultural Research Service to conduct research on mapping the genome of cattle:

Answer: The USMARC is an appropriate location for this activity. Such a project would require approximately 1,000 cattle of a given genotype over a long period of time. We can readily maintain large populations of beef cattle at our Clay Center facility.

Question: Would you need any additional buildings or facilities at Clay Center to implement this research program?

Answer: No additional animal buildings or laboratory facilities would be required to initiate the program.

Question: If a program of this nature were developed at Clay Center, would the scientists there collaborate with scientists at state universities and the National Institutes of Health?

Answer: Our scientists at Clay Center certainly undertake such collaborative activities. We have many cooperative research programs with the land-grant universities and some cooperative projects with NIH. Our scientists and program managers have discussed potential collaboration on mapping the genome of cattle with several university scientists and one or more leaders of NIH programs. One of our laboratories has worked closely with the National Cancer Institute facility at Frederick, Maryland, to develop poultry genetically resistant to avian leukosis.

Question: Have you included any proposed increases in your 1991 budget request for mapping or studying the genome of livestock at ARS's facility at Clay Center, Nebraska?

Answer: We have included a $625,000 increase request in the 1991 budget for studying mapping of the genome of livestock at Clay Center.

Question: I have been told by some leaders of the beef cattle industry that it will require approximately $2 million per year to support a viable effort in this area. Does this figure sound about right to you?

Answer: We believe the $625,000 budgeted by ARS will allow us to initiate a reasonable program in animal genome mapping.

Question: Have you included $2 million in your 1991 proposed appropriation increase request for mapping the genome at Clay Center, Nebraska?

Answer: The ARS budget for FY 1991 includes $625,000 for Clay Center on animal germplasm conservation, which includes gene mapping.

QUESTIONS SUBMITTED BY SENATOR CRANSTON

ARS RESEARCH FACILITIES IN CALIFORNIA

Question: The ARS research facility in Fresno, California has played an important role in the growth of California agriculture and agriculture nationwide.

Do you believe that this facility is in need of substantial renovation in order to continue its on-going and future research efforts? Has planning of improvements been undertaken? What is your estimate of the total cost of these improvements?

Answer: The facilities consist of concrete block buildings constructed in the late 1920's through the Works Progress Administration and house-trailer complexes constructed over the last 10 years. The overall facility is in need of modernization to bring it up to present day laboratory standards. Existing permanent and temporary facilities are not energy efficient with annual utility costs for the Location totaling $128,000. Shop facilities are leased off-location under an annual agreement with the City of Fresno. The city has advised that at some future time they will need this space for airport needs. Incompatible research projects cannot be sufficiently isolated due to limited facilities.

In 1987, 30 acres of land were purchased by ARS in support of the Location's research programs. Development of the land was started in 1989 and is continuing. Five acres of the 30-acre parcel were set aside for a new facility complex. Planning of new facilities has not begun and therefore, we do not have an estimate of the cost.

Funding for this project is not included in the FY 1991 budget request. Additional appropriation required for this facility will be considered along with other priority needs in future budget recommendations.

Question: The ARS salinity laboratory in Riverside, California is engaged in salt and water salinity research which is critical to irrigated agriculture throughout the western United States. Because the existing facility is outmoded, Congress has appropriated funds towards construction of a new salinity lab.

What is the status of this construction project? How much additional money needs to be appropriated to complete construction of the new facility?

Answer: Design of the facility is scheduled to be completed the third quarter of FY 1990. A total of $16 million is required for construction. $900,000 was appropriated in FY 1989 and $2 million was appropriated in FY 1990 leaving a balance of $13.1 million required to award a contract for construction.

QUESTIONS SUBMITTED BY SENATOR SARBANES

BARC RENAISSANCE 93

Question: What is the status of the Renaissance 93 plan to upgrade and rehabilitate the physical facilities at BARC? What progress has been made in implementing the long-range goals of Renaissance 93? What are the remaining high priority maintenance, rehabilitation and modernization needs? What are the impediments to modernization? Please provide details of the projects which would be accomplished with the funding requested for Fiscal 1991.

Answer: The FY 1988 contract covering a BARC Modernization Study which incorporates the Renaissance 93 concept is 95 percent complete. The study projects $260 million in construction requirements and a 13-year sequencing design and construction plan at an annual cost of approximately $20 million. In FY 1989, approximately $10 million was spent for modernization, and approximately $10 million is projected to be spent in FY 1990. Remaining high priority needs include upgrading/replacing sewer, water, power, steam, and roads; one or more major new facilities to accommodate modernization sequencing and program clustering; greenhouse complex renovation; and existing building upgrade.

Funds for FY 1991 are being requested within the Buildings and Facilities account since it is that appropriation which provides the necessary authority for the planning and construction of major projects over a multi-year timeframe. With funding provided as proposed in the President's FY 1991 budget, the only impediment to modernization will be the inconvenience experienced by researchers during the construction phase. However, the BARC Modernization Study is providing a framework which will keep this inconvenience to a minimum.

A list of projects to be accomplished with FY 1991 funding follows:

BARC FY 1991 EXPENDITURE PROJECTIONS

Project	Amount
Range 2 Greenhouse Renovation (C)	$ 2,500,000
BARC Waste Water Treatment Facilities Upgrade (one D and one C)	5,650,000
BARC Electrical Distribution System Upgrade (C)	1,700,000
Building 001 Renovation (D)	700,000
Building 029 Service Building Repairs (D/C)	184,000
Building 050 HVAC Repairs (C)	500,000
New Lab Building, BARC-W (S/D)	1,000,000

BARC FY 1991 EXPENDITURE PROJECTIONS

Project	Amount
Minor Miscellaneous Projects, Contingency for Unforeseen Conditions and Swing Space for Relocation of Personnel during Renovations	1,860,000
Poultry House HVAC (D/C)	122,000
BARC Annual Painting (D/C)	200,000
BARC Annual Roof Repair (D/C)	200,000
Granary Improvement (D/C)	414,000
Demolition of Facilities (D/C)	200,000
Integrated Swine Facility (D)	520,000
Central Collections Facility (S)	50,000
Free Stall Barn (S/D)	200,000
Total	$16,000,000

(S) = Study
(D) = Design
(C) = Construction

GYPSY MOTH RESEARCH

Question: I understand that the Agricultural Research Service is primarily responsible for conducting research needed to control the gypsy moth in non-forest environments. Would you please submit for the record a description of the research underway directly related to that responsibility?

Answer: The Agricultural Research Service program of research on gypsy moths is conducted primarily at five locations. At the Beltsville Agricultural Research Center, Beltsville, Maryland, research at several laboratories is directed to the long-term goal of providing biologically based management programs for home owners, organized communities, municipalities, parks, and others. The major efforts address: the enhancement of the gypsy moth nuclear polyhydrosis virus as an efficacious biocontrol agent and its development to commercialization; the utilization of gypsy moth pheromone-based technologies for surveillance and mating disruption strategies for control; improvement and implementation of management programs for suburban/urban parks; and improvement of barrier band technology for use by the individual home owner. Furthermore, laboratories at Beltsville are conducting research to improve the fundamental understanding of gypsy moth biology, diapause, reproduction, behavioral physiology, and large-scale rearing for use in the sterile male technique. Such information will provide leads to new and better approaches to gypsy moth management.

The Beneficial Insects Laboratory, Newark, Delaware, focuses on field studies of gypsy moth population dynamics, gypsy moth natural enemies, and the release, recovery, and field evaluation of foreign parasites and predators. The Newark laboratory also serves as a quarantine handling and evaluation facility.

The European Parasite Laboratory, Behoust, France, and the Asian Parasite Laboratory, Seoul, Korea, both have component research to discover new biological control agents that attack the gypsy moth. Since the Eurasian gypsy moth natural enemy complex is much different than the one in North America, the overall goal of this research is to discover parasites and predators that could make the U.S. natural enemy complex more diverse and effective in reducing populations.

The Plant Protection Unit, Ithaca, New York, is currently conducting research on the characterization and eventual introduction into North America of gypsy moth fungal pathogens.

Question: Since the current federal-state cooperative gypsy moth program is targeted towards those lands that are 50% or more forested with susceptible trees, what options does a land owner, who does not qualify for federal assistance, have to control gypsy moths?

Answer: At the present time available options include
(1) participating in county, city, or community programs designed to supplement the federal/state cooperative program;
(2) organizing jointly with neighbors to contract with a private aerial pesticide applicator to treat a group of contiguous properties; (3) contracting with a local arborist company for ground spray applications to individual trees; (4) applying and maintaining barrier bands to protect individual trees from defoliation; and (5) removing all egg masses that can be reached on trees and other objects on property.

Question: What research effort is underway and what are the prospects for improving methods of control for trees that do not meet criteria for federal support?

Answer: Research, supported primarily by ARS pilot test funds, is currently being conducted in Montgomery County, Maryland parks, in the city of Greenbelt, Maryland, and on the Beltsville Agricultural Research Center, to more precisely define the value of the various methods that are now available and to develop new methods, including a commercially viable method of producing and utilizing the gypsy moth virus. We are confident that the pilot test will accomplish its original objective of developing a Bacillus thuringiensis based gypsy moth management program for parks and other similar lands. However, strategies to develop community-based programs will still have to be developed. Increased research efforts that would improve current gypsy moth management programs in non-forested areas include: (1) improvement of sampling procedures for egg masses, larvae and adults, as well as the development of technology associated with the use of pheromone traps for monitoring high density adult populations; (2) characterization and evaluation of new strains of Bacillus thuringiensis and of the gypsy moth nuclear polyhedrosis virus; (3) development and evaluation of improved procedures for the use of pheromones for population suppression through mating disruption; (4) development and implementation of a computerized, decision-making system for urban areas to include home sites and communities, and the integration of all site-specific programs into a unified urban program; and (5) economic assessment of the cost-effectiveness of various alternative suppression technologies.

ONCOGENIC PESTICIDES

Question: The presence of residues of fungicides, insecticides and herbicides on and in fruit and vegetables is causing a great deal of public concern. The Environmental Protection Agency and the Board on Agriculture of the National Academy of Sciences, have stated that about 53 of the 600 agricultural chemicals are known or suspected oncogens. In fact, the National Academy of Sciences published the list of known and suspected oncogenic pesticides and made a worst case risk assessment for them. Has the Agricultural Research Service modified its programs and developed additional plans to find alternative controls for those pesticides known or suspected to be oncogenic? Please elaborate.

Answer: We have studied the report by the Board on Agriculture of the National Research Council with great interest and concern. In addition to the Agency's on-going relevant research programs, some of which include biological control, improved cultural practices and development of host-plant resistance, we have been in the process of developing three comprehensive research Action Plans for highly coordinated effort for developing alternatives to those specific chemical pesticides suspected of being oncogenic. The Action Plans for fungicides and insecticides have been completed and are under internal review. The Action Plan for herbicides is in preparation and should be completed in the next month or so. These Action Plans will serve as the basis for additional modifications in program and new program implementation, where needed, to address the problem. All three plans include components consisting of research on safe naturally occurring chemical insecticides, biological control, host-plant resistance, cultural practices, biotechnology and integrated pest management. The action plans are aimed specifically at developing alternatives to those chemical pesticides identified in the report.

Question: How would you rank the urgency to find alternatives to known or suspected oncogens with regard to fungicides, insecticides and herbicides that are used to protect fruit and vegetables before and after harvest?

Answer: We view the problem as a cross-cutting issue of very high national concern and urgency and reflected as much in our ARS programs that now address ground water quality, food safety, biological control, and plant germplasm. These are, in a large part, defined by the pesticide issue. If the registrations are lost for many of the pesticides now listed as suspected oncogenic agents, it is going to be increasingly difficult to produce a product acceptable to the consumer. The removal of these pesticides would leave major gaps in our ability to protect fruit and vegetables before and after harvest.

ALTERNATIVES TO CHEMICAL PESTICIDES

Question: Please explain briefly the overall ARS program for discovering and developing alternatives to chemical pesticides which pose significant risks to human health and to the environment. In particular, please identify the major gaps and/or weaknesses in the ARS program.

Answer: The total level of research effort in ARS in FY 1990 on developing non-chemical controls for plant diseases, nematodes, insects and weeds is $40 million involving about 224 scientists. The effort includes research on ecological methods such as eliminating over-wintering hosts, development of varieties that resist pest attack, row spacings of crops and cultural practices that enhance their ability to out-compete weeds, biological control, biotechnological approaches, use of behavioral chemicals (pheromones, food attractants, etc.) to combat nematodes and insects, physical methods such as reflective mulches to prevent aphids from alighting on crops, hot water treatment against pests on imported fruit, etc.

With regards to strengths in the program, ARS allocates 133.6 SY effort to plant breeding. Roughly one-half of this effort is focused on developing pest-resistant crops. However, the level of effort is very meager or non-existant with regard to those commodities identified by the National Academy of Science that are likely to have dangerous pesticide residues, namely tomato, apple, peach, lettuce, grape, celery, spinach, and cabbage. With regard to biological control research of weeds, ARS has respectable programs relative to aquatic and rangeland weeds, but a very meager program on cropland weeds. With regard to biological control of plant diseases, ARS has a respectable effort on soil-borne diseases that attack roots and seedlings. However, the biocontrol research program to protect the fruit, stems and leaves is almost non-existant. With regard to biological control of insects ARS has a fairly good effort on some of the long established major pests, but the effort on pests that have come to prominence recently (e.g. sweet potato whitefly), and on specialized approaches (e.g. inundative releases of biocontrol agents) is weak.

Question: Please indicate the number of scientist years of effort on alternative controls that would have to be provided in order to significantly impact on the need within 5 to 10 years. To what extent can this need be met by redirecting resources from the ARS base?

Answer: In order to mount a meaningful effort to develop non-chemical and integrated controls against plant pathogens that attack fruit, leaves and stems before and after harvest would require no less than an additional 25 scientist years of effort. In order to mount a small pioneering effort on the biological control of cropland weeds would require at least 10 scientist years of effort. The most critical gaps in the biological control of insects could be net with an additional 10 scientist years of effort. We believe that over the next two years, we may be able to redeploy up to 5 scientist years of effort from the base program.

ANTI-CARCINOGENIC FOOD CROPS

Question: News releases from the Agricultural Research Service have indicated that the consumption of green and yellow vegetables has shown a negative correlation with the incidence of colo-rectal cancers and with cardiovascular disease. Evidently these protective effects cannot be explained on the basis of nutrients already known to be present in these vegetables. Do you have a research program underway to identify the factors in these vegetables that are responsible for these protective effects?

Answer: Foods derived from plants, especially certain fruits and vegetables may contain micronutrients with antioxidant and antimutogenic properties, such as selenium, tocopherols, ascorbic acid, retinol and carotenes. The Nutrient Composition Laboratory, of the Beltsville Human Nutrition Research Center, with support from the National Cancer Institute (NCI), has developed appropriate methods for assaying important food sources of these nutrients. However, other compounds with the potential to modulate metabolism favorable for the prevention of cancer in humans occur naturally in plant foods, about which much less is known. Classes of such compounds include indoles, phenols, terpenes, bioflavinoids, isothiocyanates, sterols, saponins, carotenoids, naphthoquinones, coumarins and other lactones. Many of these phytochemicals have been shown to have anticarcinogenic activity in animal models. The NCI recently has initiated a program to clinically evaluate some of these phytochemicals in humans. ARS has no similar program, but will initiate a program to determine the amounts of these constituents present in commonly consumed foods, as resources permit.

Question: Evidently at Beltsville some efforts are being made to utilize the limited knowledge of the anti-carcinogenic factors in fruit and vegetables in further improving their composition. For example, we understand that efforts are underway to increase the contents of the anti-cancer substance, ellagic acid, in strawberries. Give a brief description of research at Beltsville that is intended to increase the intrinsic safety of the food and water supply.

Answer: The ARS Fruit Laboratory at Beltsville has determined the ellagic acid content of several varieties of strawberries. Ellagic acid is a naturally occurring phenolic constituent of a large number of flowering plants such as apples, grapes, blackberries, blueberries, cranberries and strawberries. Ellagic acid exerts both antimutagenic and anticarcinogenic activity, as an inhibitor of chemically induced cancer with rats and mice. Studies on the inheritance and variation between varieties, physiology, and nutritional availability from strawberries, blueberries, and cranberries are under way at Beltsville.

The Nutrient Composition Lab of the Beltsville Human Nutrition Research Center is focusing attention on determining the forms and amounts of carotenoids in foods. Beta carotene is one of a considerable number found in green and yellow vegetables and tomatoes. This work is being done collaboratively with NCI.

The Lipid Laboratory of the Beltsville Human Nutrition Research Center has devised an improved method for measuring mutagenic activity, such as that of dietary fat and fecal pentanes. This method has been extended to measure quantitatively the mutagenicity of environmental substances found in ground water.

Question: I understand that the Nutrient Composition Laboratory in the Beltsville Human Nutrition Research Center is the leading laboratory in the world with regard to developing methods to analyze the chemical composition of food. Briefly describe the program of this laboratory. Does this laboratory have reasonably adequate resources for identifying the factors in foods that protect against cancers and cardiovascular diseases, and to meet the needs of the Human Nutrition Information Service in updating handbook # 8 and other informal pamphlets? Please elaborate.

Answer: The ARS is indeed proud of the unique contributions of its Nutrient Composition Laboratory over the years. The mission of the laboratory is to develop appropriate methods for measuring nutrients and other important components of foods, including sampling procedures; to analyze commonly consumed foods; and, in cooperation with HNIS, to transfer technologies to industrial, academic, and government laboratories.

This laboratory has been able to maintain its present level of productivity due to the long-term collaborative support from National Cancer Institute and National Heart Lung & Blood Institute. Development of methods for analysis and generation of food composition databases for selected phytochemicals are essential before the relationship between foods and disease-risk can be further elucidated. Because of the complexity of this research, additional funds are required to pursue these efforts on a timely basis. It is estimated that an additional $500,000 per year will be required.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

ORLANDO RESEARCH FACILITY

Question: I believe that the ARS now has a research facility in Orlando, Florida. It is my understanding that the City of Orlando, who originally sold the land to ARS, wants the land for municipal purposes and, in fact, the area has become much too congested to suit the needs of an agricultural research operation.

Mr. Plowman, could you outline for the committee what you think would be the cost of planning, relocation, and construction for a new facility in the citrus growing area of Polk County, south of Orlando?

Answer: The following preliminary cost estimate is provided:

Component	Cost (Estimate)
Land (80 acres) *	$ 1,600,000
Preliminary Planning/Design	2,000,000
Preliminary Construction/Equipment ** (120,000 s.f.)	23,000,000
Staff Relocation	1,000,000
Total	$27,600,000

Funding for this project is not included in the FY 1991 budget request. Additional appropriation required for this facility will be considered along with other priority needs in future budget recommendations.

*While no specific site has been located/selected, this would be the cost to relocate to a rural site located in Polk County.

**Figure is escalated to Fiscal Year 1992.

LOW INPUT AGRICULTURE

Question: Earlier this week when Secretary Yeutter was testifying before the Subcommittee, in response to a question he indicated that the budget includes sources of funding in various categories that could be related to low-input research. Could you please provide the subcommittee a listing of these sources/projects/categories together with the dollar amount for each.

Answer: A list of 6 categories of ARS research designed to reduce inputs per unit output of agricultural production systems is attached. This list includes budgets for each category. There are a total of 735 projects in these categories.

Sustainable Agricultural Research
FY 1990
($000)

Areas of Research	Amount
Biocontrol of Crop Pests	$ 38,835

Areas of Research	Amount
Plant Variety Development to Reduce Input Per Unit of Output	20,638
Management Practices to Conserve and Improve Soil, Water and Air -- and Optimize Production	31,122
Animal, Range and Forage Systems to Reduce Input Per Unit of Output	4,796
Management to Improve Pesticide Use and Food Quality	7,670
Enhancement of Agriculture Energy Sufficiency	3,136
TOTAL	$106,197

QUESTIONS SUBMITTED BY SENATOR McCLURE

BARLEY YELLOW DWARF VIRUS

Question: Barley yellow dwarf virus (BYDV) is the number one virus disease problem of small grains--barley, oats, and wheat. The ARS comprehensive plan of research on the BYDV problem committed $490,500 and one scientist to develop small grains gene transfer technology at the Plant Gene Expression Center (PGEC) in Albany, California, starting in FY 1989. However, the research was never carried out. The PGEC efforts have been directed at developing gene transfer technology for other crops, which is not directly applicable to small grains. Why is the ARS not fulfilling its commitment to this program by dedicating one permanent, full-time researcher at the PGEC to gene transfer research with barley, oats, and wheat?

Answer: The PGEC is committed to the overall ARS barley yellow dwarf virus research program. Ongoing research at the PGEC is related to gene transformation of large and small cereal grains. The development of general transformation systems in agriculturally important plants, including cereal grains, is necessary for the solution of the barley yellow dwarf virus problem in cereals. Additional components of the PGEC research program contributing to the solution of this problem include development of gene vectors, gene transfer, and gene expression systems for monocots. A scientist will be hired by the PGEC in 1990 to focus directly on the BYDV in Barley.

RUSSIAN WHEAT APHID

Question: The Russian Wheat Aphid (RWA) is not only a threat to the wheat crop, but actually prefers barley and can be more damaging to barley than wheat. A more appropriate name for this pest would be the Russian Grain Aphid. Congress appropriated $750,000 for FY90 for RWA research. Considering the significant threat that this pest poses to barley, what portion of this funding is being allocated to barley research?

Answer: Approximately $740,000 directed towards biological control can be considered in support of control of Russian Wheat Aphid on both barley and wheat. Direct support of breeding resistance to RWA for barley was increased by $100,000. Development of IPM strategies to include cultural, chemical, host plant resistance and biological control will be applicable to barley as well as wheat.

Question: What research stations are currently using these funds for barley research on RWA?

Answer: New funding was allocated as follows:

Location	Activity	Total	Percent Barley
Stillwater, OK	Host Plant Resistance IPM Strategy Develop Biocontrol Agents	$444,600	25%
Ithaca, NY	Develop Microbial Control	$183,800	50%
Headquarters	Support State & Federal Effort on RWA Biocontrol	$111,100	50%
	TOTAL	$739,500	

BARLEY STRIPE RUST (BSR)

Question: Barley stripe rust (BSR) is a disease in barley that has the potential of devastating the barley crop throughout the U.S. In 1975, BSR moved from Europe to South America and rapidly spread throughout that region. The BSR pathogen has since moved northward and was found in Mexico in 1987. At the current rate of spread, BSR should be found in the southern U.S. within the next two years. Action is needed to protect the U.S. barley crop from destruction by BSR. Has the ARS assessed BSR research needs and developed appropriate recommendations for management of the BSR threat? If so, what are the recommendations? If not, is this being planned?

Answer: Barley stripe rust (BSR) disease could become a serious problem if the pathogen were introduced into wet, cool areas where barley is cultivated. ARS recognizes the seriousness of the BSR threat and is assessing the research needs for the disease. Recommendations for management of the disease are being formulated based on monitoring the disease situation in South America and Mexico and on the available information. BSR-resistant germplasm is available in the world barley collection and Europe. In addition, systemic fungicides, such as triadimefon (Bayleton), are available and have been effective in Andean countries.

FOOD LEGUME CROPS

Question: Food legumes are among the oldest cultivated crops. Peas, lentils, chickpeas, and Faba beans are principal cool season food legumes found in temperate regions of the world and are widely grown there. These legumes are high in protein and rich in fiber, complex carbohydrates, B-vitamins, and potassium.

These commodities are important cash crops in California, Idaho, Montana, Oregon, Washington, Wisconsin, Minnesota, and New York. Cash value to farmers, processors, and others associated with production and distribution of these food products exceeds an estimated $100 million annually.

These crops are important also because legume plants provide important benefits to farmers through improved soil fertility via biological nitrogen fixation, improved soil structure, moisture conservation, erosion control, cereal disease reduction, and grassy weed control. For many farmers, food legumes offer an alternative cash crop for income stability.

My first question is how many Federal research dollars are currently provided to peas and lentils?

Answer: Currently we plan to obligate $1,130,000 for ARS research programs on peas and lentils and CSRS plans to obligate approximately $500,000.

Question: Secondly, how many Federal research dollars are currently provided to chickpeas, Faba beans, and other cool season legumes?

Answer: While we do not have detailed budget information specifically for chickpeas, Faba beans, and other cool season legumes, we estimate that we obligate about $600,000 for research on these crops.

Question: How does this compare with other crops of the same economic importance?

Answer: Since we do not have precise budget data for chickpeas, Faba beans, and other cool season legumes, it is very difficult to make a comparison with other crops of the same economic importance. However, we estimate that Federal research funds obligated collectively for research on peas, lentils, chickpeas, Faba beans, and other cool season legumes would compare very favorably with other low acreage crops with an annual farm value of about $100 million.

Question: I know you are aware of the AID feasibility study on the need for further research on cool season legumes. This points out the need for more research on these areas. What is the Department's view of the need for further research on these crops? If the subcommittee provided funds for a cool season legume research program, where would the funds be allocated and who would do the research? To what extent would this research facilitate a transfer of technology in international research centers currently studying cool season legumes?

Answer: We are aware of an AID feasibility study on the benefit of cool season legumes to U.S. and world agriculture and the need for additional research. We are supportive of the need for additional research on cool season legumes, particularly for the development of new varieties that would help expand U.S. exports of these crops. We would recommend that the additional research be coordinated by ARS scientists in cooperation with State agricultural experiment stations. This research also would be in cooperation with international research centers conducting research on cool season legumes and we would think all research findings would be applicable to foreign production areas as well. Research results would be published in scientific journals and U.S. scientists would continue to attend international meetings to help facilitate technology transfer worldwide.

Question: The U.S. pea and lentil industry proposal was put forward after consultation with the scientific community and industry leaders. It contains five areas of critical research, germplasm enhancement and utilization, plant protection, crop and ecosystem management, human nutrition and production development, and technology transfer through exchanges.

This research meets the needs identified by farmers, industry representatives, scientists, university administrators, government, and representatives at the 1986 International Cool Season Legume Research Conference. The needs identified in this conference call for an integrated multidisciplinary approach in research to solve problems related to disease, crop and ecosystem management, human nutrition, new product development, technology transfer, and low-input sustainable agriculture methods.

For instance, is the Department aware of the economic impact to the pea and lentil industry due to the loss of the chemical dinoseb? The increase cost of this loss is estimated at over $6 million. The costs of replacing dinoseb with a combination of other chemicals escalate costs of production, making it difficult to make a profit. This has cost producers millions and has not cut the use of chemicals. What is needed to assist growers is research on alternatives to chemicals. Research on plant genetics, genome mapping, and other biotechnical areas hold great promise in developing varieties which are disease resistant, more aggressive than weeds, and still maintain yield and quality needed to provide profitability in production.

In addition to this needed area of research, the Cool Season Legume Research Center would focus on interaction between the U.S. scientific community and the international food legume community, particularly those in ICARDA in Syria and ICRASAT in India. Effective communication linkages which do not currently exist can be built and sustained through this effort.

In addition, the Federal government, through the President's Office of Science and Technology and Policy (OSTP), is promoting the concept of Federally-sponsored university research centers that bring together scientists from a variety of disciplines to work on problems of U.S. industry. OSTP maintains that such centers improve the competitiveness of U.S. industries, stimulate U.S. industry support for research, and improve the transfer of technology to U.S. industry.

The benefits of this program are multifaceted. Farmers will benefit by consistently-funded, concentrated research on improved farming methods that emphasize pest and disease control through biotechnical methods and through better crop and soil management. Environmental and human hazards associated with intensive use of farm chemicals will be lessened. Improvements in the ability of food legumes to fix nitrogen could reduce the amounts of commercial nitrogen fertilizer farmers use throughout their crop rotation. This will eventually reduce farming costs and reduce any possibility of nitrates seeping into ground water. Research in this area will help in developing conservation tillage systems for food legumes which will help in conserving moisture and lessen erosion problems.

This proposal holds the key to answering many questions in the area of cool season legume research. It will address many needs and problems currently existing. My final question is whether the Department supports this program?

Answer: There are many industry problems that could be addressed by additional research on peas, lentils, and other cool season legume crops. ARS scientists at Pullman, Washington, are pursuing a research program on alternatives to dinoseb for weed control in pulse crops. To date all possible herbicides and herbicide combinations have been evaluated for use in dry peas, lentils, and chickpeas. ARS data was used to obtain Section 18 emergency permits for use of Pursuit herbicide in Idaho, Oregon, and Washington for pulse crops in 1989 and a Section 18 permit for use of Pursuit in pulse crops during 1990 has been requested by the same states. ARS scientists in cooperation with university scientists will continue to evaluate various weed control technologies as a possible replacement for dinoseb.

We recognize the opportunities to develop new improved varieties that would be more resistant to diseases and other pests while maintaining yield and quality attributes. This would help reduce the use of chemicals. But we recognize the technology needs of cool season legume crops and believe that research to address these needs can best be carried out by cooperative efforts between ARS, SAES, and industry.

Question: I have a few final questions which I will submit for the record and ask USDA officials to respond in writing to me.

NON-APIS BEE RESEARCH

Question: What is the status of the non-apis bee research currently being done by ARS?

Answer: Non-apis bee research in ARS is carried out primarily at the Bee Biology & Systematics Laboratory, Logan, Utah. Here, three scientists conduct research to develop alternative crop pollinators; identify and control pests of bees that interfere with crop production efficiency; explore methods to identify, control, and measure impact of bee diseases; characterize pollen-nector sources; and increase knowledge of bee/plant interactions to overcome pollination problems. This laboratory also cooperates with regional universities through cooperative agreements on research related to non-apis pollinators of alfalfa. At the Beneficial Insects Laboratory, Beltsville, Maryland, one scientist conducts research to develop new biosystematic information on non-apis bees that are valued pollinators.

PLANT GENOME MAPPING

Question: The Administration has proposed to increase funding for plant genome mapping, does the Administration have a plan on which crops will receive priority attention under this proposal? If so, please provide me with a break down of funding by crop? Has ARS considered the needs of small, minor crops such as vegetable crops, rapeseed, peas and lentils and beans? How much will be made available to these crops?

Answer: Yes, we have a plan that will address a broad spectrum of crop gene systems. Our approach is to focus on mapping economically important traits. This genetic material would then be available for transfer to other crops. Mapping of the genome and transferring traits that offer drought tolerance, pest resistance, and other environmental and quality factors will provide the information necessary to solve many of the Nation's agricultural problems.

ABERDEEN, IDAHO

Question: Does ARS have plans to increase funding for germplasm enhancement at Aberdeen, Idaho to improve the agronomic qualities of the germplasm to make the material more useful to oat breeders in developing new varieties? If so, how much is allocated? If not, why not?

Answer: At this time, ARS does not plan to further increase the funding level for oat enhancement research at Aberdeen, Idaho. In FY 1990 an increase for this thrust was appropriated, and it is being utilized in accordance with a plan recommended by the Oat Crop Advisory Committee. To add additional funds for this purpose would require that ARS reduce its effort on some other aspect of research on oats. We feel that such action would be detrimental.

VEGETABLE OILS RESEARCH

Question: Does the ARS budget request include the $84,225 currently appropriated for vegetable oils research under USDA/ARS Research Agreement No. 58-43YK-7-0045?

Answer: The ARS budget request includes $84,051 for vegetable oil research at Moscow, Idaho, under Agreement No. 58-43YK-7-0045.

RAPESEED RESEARCH

Question: Please provide me with a status report on rapeseed research currently underway in ARS and CSRS. I am particularly interested in the research being done in cooperation with the USDA Office of Energy and the Office of Critical Materials. Please list funds allocated, spent, the location of the expenditures and the progress of the research.

Answer: The ARS conducts a cooperative program on rapeseed research with the University of Idaho at Moscow. The CSRS supports rapeseed research for industrial uses through the Office of Critical Materials at eight land grant universities. The USDA

Office of Energy is informed of the progress or planned changes in rapeseed research. The ARS supported rapeseed research at Moscow, Idaho, was $84,225 in FY 1989. In FY 1990, $84,051 is allocated for cooperative research at Moscow, Idaho.

Alternative varieties of winter rape have been developed which have superior properties for use as a diesel fuel. A small-scale oil extraction system, suitable for on farm use, has been assembled, automated, and evaluated. With this system, vegetable oil can be produced and used directly in diesel fuel blends or processed further to produce ethyl esters. Preliminary data indicates that alcohol esters of rapeseed oil could significantly reduce particulate emissions of diesel engines as much as 70 percent.

The goal of the CSRS national program in the High Erucic Acid Development Effort is to expand commercial use of oils high in erucic acid, such as in industrial rapeseed and crambe oils. Rapeseed and crambe are adapted to different climatic regions of the United States. High erucic acid rapeseed is primarily a fall planted crop whereas crambe is a spring planted crop. Having these two crops helps in assuring that agriculture can be a reliable supplier of an industrial raw material. This multifaceted partnership involves CSRS, ARS, Land Grant Universities from eight states --Indiana, Iowa, Illinois, Kansas, Missouri, Nebraska, North Dakota, and New Mexico,-- and the Kansas Board of Agriculture as well as private firms. The sum of accomplishments of this team effort are substantially greater than what could have been accomplished independently.

Market needs serve as the logical foundation of the program. High erucic acid crops can expand markets for agricultural commodities. Erucic acid holds excellent potential as a feedstock for a number of industrial products because of its inherent chemical and physical properties. This commercialization effort focuses on overcoming weak links and impediments in the entire system including crop production, processing, product development, manufacturing, and marketing. We know farmers can produce industrial rapeseed and crambe, although we know that further improvements will occur with more research and experience. Processing is possible but improvements are needed especially with crambe. The primary hindrance to expanded commercialization is currently related to product development and marketing aspects. Hence, we have focused current effort on market development.

The Federal contribution is leveraging over $2 of state and private money for every $1 of Federal investment. The federal funding from Section 1473D of Public Law 95-113, under the Supplemental and Alternative Crops program in CSRS, spearheads the effort. In FY 1989 and FY 1990, Federal funding under the Supplemental and Alternative Crops Program totaled over $320,000 per year, for this eight state effort and work with private partnerships. Nebraska and North Dakota have limited additional Federal funds allocated to rapeseed and crambe.

Marketing now receives the largest amount of resources and processing the least. The emphasis on marketing reflects that the major hindrances to expanded commercialization relate to marketing including product development and testing. Production research focuses on increasing oil and erucic acid content-- plant breeding, pest management, and crop management practices that increase adaptability, yield efficiency, and supply reliability.

A small firm from the Pacific Northwest is now testing a new lubricant at a major independent, third-party laboratory. Hard scientific data are needed to convince major firms that this product is superior to those currently on the market. CSRS is also studying a proposal to make a new product that would be used in the production of plastics--three plastics manufacturers are expressing keen interest in the product if tests prove it performs at the level the small firm claims.

Negotiations are now being held with a private firm to help develop brassylic acid from erucic acid. No U.S. firm produces brassylic acid on a sustained basis nor can brassylic acid be purchased in the U.S.; it is available from Japan at about $20 per pound. A number of products with large market potential can be manufactured using brassylic acid as a raw material. The list of products includes: nylons with very low moisture absorbing properties and excellent dimensional stability, plastics with relatively high degradation temperatures relative to those currently on the market that sell for under $5 per pound, elastomers with superior flexibility, and "bake-on" industrial paints and coatings with superior flexibility and moisture resistance. In addition, brassylic acid can be used as a perfume base.

Some highlights of the High Erucic Acid Development Effort follow. A small firm is testing a new lubricant that uses rapeseed oil derivatives. Personnel from the firm visited with Idaho rapeseed growers, handlers, and researchers to discuss potential linkages including possibility of a crushing plant for northern Idaho. Researchers at North Dakota State University discovered excellent attributes of erucic acid derivatives for elastomers as well as for paints and coatings. Work was undertaken to explore the possibility of developing new families of polymers/plastics from erucic acid derivatives. A group of chemical engineers from the University of Nebraska evaluated profitability of erucamide and brassylic acid production; they determined erucamide to be a very lucrative venture but with a small market and brassylic acid to have somewhat lower profit potential but has large market potential. ARS conducted further chemical characterization of crambe oil. A New Mexico State University plant breeder discovered a male sterile crambe--the first step in developing hybrid crambe. The University of Missouri identified optimal planting dates for the crops. The University of Idaho completed a beef cattle feeding trial that is in agreement with an earlier Kansas State University study that suggests commercial advantages of feeding rapeseed meal. The University of Idaho initiated hybridization of rapeseed and is investigating pest control strategies. Iowa State University is coordinating work to obtain approval for use of Treflan on crambe. Winter rapeseed has been identified as a crop that results in low soil loss from erosion, particularly relevant in light of forthcoming conservation compliance. As a precautionary safety measure, the University of Illinois has begun work to determine if erucic acid is deposited in the internal organs of animals when fed the meal. The project participants conducted or participated in a host of activities to educate farmers, processors, manufactures about rapeseed and crambe oil and meal. Three program reports plus a host of technical articles have been published.

The High Erucic Acid Development Effort is making very good progress with limited resources. Signs of market expansion are on the horizon. Successfully expanding commercial production will provide many benefits such as diversifying American agriculture, expanding markets to and adding value for agricultural commodities, improving farm income, increasing dividends on public R&D investments, and spurring economic development especially in rural areas.

A table will be provided which lists Supplemental and Alternative Crops program funding by organization for FY 1989 and FY 1990.

CSRS
High Erucic Acid Development Program
Fiscal Years 1989 and 1990
(Dollars in Thousands)

ORGANIZATION	PRODUCTION		PROCESSING		MARKETING		TOTAL	
	1989	1990	1989	1990	1989	1990	1989	1990
University of Idaho	44.0	41.0	--	--	--	--	44.0	41.0
University of Illinois	--	--	--	5.0	--	--	--	5.0
Iowa State University	--	20.0	24.9	--	--	--	24.9	20.0
Kansas State University	23.0	15.0	34.5	28.0	--	--	57.5	43.0
University of Missouri	21.2	20.0	--	--	71.3	60.0	92.5	80.0
University of Nebraska	--	--	--	--	36.0	30.0	36.0	30.0
New Mexico State University	24.0	24.0	--	--	--	--	24.0	24.0
North Dakota State University	--	--	--	--	30.0	30.0	30.0	30.0
Other	--	--	--	--	2.4	32.0	2.4	32.0
Unallocated	--	--	--	--	--	--	--	2.5
Federal Administration	--	--	--	--	--	--	13.7	13.5
TOTAL	112.2	120.0	59.4	33.0	139.7	152.0	325.0	321.0

QUESTIONS SUBMITTED BY SENATOR KASTEN

ENVIRONMENTAL QUALITY INITIATIVE

Question: Dr. Hess, I read with interest about the environmental quality initiative that is funded by the Agricultural Research Service. I can certainly understand the need for an increase in this area. I agree with you that groundwater contamination and global change deserve national attention. I do, however, have concerns about funding this increase out of the Agricultural Research Service. As you are well aware, groundwater problems result from a complex set of circumstances that include geology. Due to the regional nature of many of these circumstances, do you believe that ARS or CSRS is the best place to house this research?

Answer: I agree with you that ground-water quality issues are very complex and require the application of many disciplines besides those generally associated with agriculture. That is why the Department's initiative is closely coordinated with programs of the U.S. Geological Survey and the U.S. Environmental Protection Agency. Within the Department, the ARS activities are coordinated with 9 other Agencies, such as the Extension Service, SCS and CSRS. The Department's goal is to minimize the risk of agricultural chemicals significantly contaminating ground water. I believe that ARS and CSRS have a primary role to play in conducting research that will better elucidate how agricultural chemicals escape the root zone, how crop production utilizes the chemicals, and how to use this knowledge in developing improved crop production practices that will reduce losses of chemical from the root zone. CSRS has a separate competitively operated program with funding distributed regionally to address high priority regional problems.

WATER QUALITY INITIATIVE

Question: Mr. Mussman, I am glad that Secretary Yeutter has seen fit to ensure that a fully coordinated Water Quality Initiative is in place. Would you outline for me the current status of this initiative and in particular, whether goals and objectives are being met? Is the Initiative moving forward at a pace that satisfies you?

Answer: The Water Quality Initiative involves ten agencies of the U.S. Department of Agriculture, the U.S. Geological Survey, and the U.S. Environmental Protection Agency. The Department has established a Working Group on Water Quality which I chair. The purpose of the Working Group is to coordinate the activities within USDA to ensure effective implementation and to coordinate USDA activities with USGS and EPA. There are three main thrusts to the initiative—research, education and technology assistance, and databases. In all three of these thrusts, detailed implementation plans have been under development for more than a year.

With disbursement of the FY 1990 funding, the plans are being implemented in all three thrust areas. Field sites for demonstration and for implementation of ameliorative measures have been chosen nationally and site-specific implementation plans are being made; major research areas have been chosen in the Corn Belt and site-specific plans are being made there, also. In the latter case, ARS, several agricultural experiment stations, and the USGS are progressing on coordinating their research activities.

I am satisfied that this effort involving many federal agencies and people and requiring complex interactions with state agencies and private landowners is proceeding with remarkable speed.

QUESTIONS SUBMITTED BY SENATOR SPECTER

BIOLOGICAL CONTROL OF ORCHARD PESTS

Question: Pennsylvania has been using biological controls to manage orchard pests over the past 15 years, so that more than 1.5 million pounds of miticides alone have been saved. What is USDA doing to encourage the use of biological controls?

Answer: The Science and Education agencies of USDA are placing major emphasis on biological control programs. ARS maintains a coordinated program involving 98 projects in 73 laboratories in 31 States, and Argentina, Australia, China, France, Italy and South Korea with a total budget of about $22 million. The State Agricultural Experiment Stations have over 900 projects on biological control and an estimated budget in Biocontrol of $30 million with $22 million from non-federal sources. Targets include plant pathogens, plant nematodes, insects and weeds. Current targets of interest to Pennsylvania include gypsy moth, codling moth on apples, purple loosestrife, musk thistle, and pear thrips on maple. Our goal is to develop environmentally sound, cost effective alternatives to chemical pesticides. Particular emphasis is on replacement of chemical pesticides with potential environmental hazards. These control methods are transferred to the user through the Extension Service and State departments of agriculture.

Question: What further work is anticipated in the future and what resources will be required?

Answer: Biological control by importation of exotic natural enemies against exotic pests introduced to this country has been enormously successful and is a continuing need. Augmentation biological control, such as the mass release of natural enemies, is thought to be an important approach to replacement of chemical pesticides. Expanding emphasis is being placed on this effort. There is concern that the biological control program is unable to respond quickly to the rapid loss of pesticides without significant increase in resources. We are fast approaching a crisis situation in which our growers will lack methods in crop protection and our consumers will find their food bill increasing dramatically.

ALTERNATIVE PEST CONTROL METHODS

Question: Many of the recent regulatory decisions on pesticides are placing burdens on growers to find alternatives or do without previously effective pest control materials. What incentive systems is USDA considering to facilitate the transition to alternative pest control methods?

Answer: The transition for agricultural producers to alternative pest control methods is a multifaceted issue. Producers must be able to remain competitive and productive with minimal exposure to economic risk and biological uncertainties from the newer control methodologies. The USDA is pursuing an orderly and prudent transition of American agriculture to alternative pest control methods by: setting clearly achievable goals for pesticide reduction while maintaining production options and levels; assuring that alternative pest control methods are available by establishing a high priority on development of nonchemical alternatives to managing pests, particularly biological controls, cultural controls, and host plant resistance; assuring that predictive systems for biological events are in place and the interactions between pests/hosts/pesticides/alternative pest control methods are understood; assuring that new knowledge is delivered to producers in a timely, usable manner; and providing a research base for the economic incentives to producers to practice sustainable, environmentally safe management of pests and removing disincentives from farm program guidelines.

Economic incentives such as the recently announced ASCS cost-share program in implementation of alternative crop production and protection practices will be evaluated and expanded if successful. The removal of disincentives in national farm subsidy programs to rotation of crops and planting of green manure crops is another example of how the USDA is seeking to encourage alternative production practices.

BARLEY GENOME MAPPING

Question: Genetic improvements of barley, brought about through research, benefits Pennsylvania's barley producers and its brewing industry, which requires a continuous supply of this critical raw material. The barley research community in the United States, with support from both the public and private sectors, including a CSRS grant, has initiated a comprehensive program to map the barley genome. Is this the type of public-private sector partnership and multidisciplinary effort that you envision for the USDA Plant Genome Project?

Answer: The U.S. barley research community's comprehensive program to map the barley genome is similar to the USDA Plant Genome Research Program in using public-private sector partnership and multidisciplinary efforts. Genome mapping and associated gene characterization and transfer is a task that requires multidisciplinary cooperation in contrast to single investigator approach.

QUESTIONS SUBMITTED BY SENATOR GRASSLEY

AFLATOXIN

Question: We added $750,000 to the FY 1990 ARS Appropriation for aflatoxin research. Is this increase adequate to meet the goal of eliminating aflatoxin as soon as is technologically feasible?

Answer: The addition of $750,000 in the FY 1990 ARS Appropriation will help meet the goal of eliminating aflatoxin as soon as is technologically feasible. However, ARS recognized that this amount would be insufficient to meet this goal and we proposed an increase of $1,600,000 in the FY 1991 budget for use in solving the aflatoxin problem in corn, cotton, and peanuts.

NECROPSY INCINERATOR - NATIONAL ANIMAL DISEASE CENTER, AMES, IOWA

Question: Last year's Senate Appropriations Committee Report instructed the ARS to study the Necropsy Incinerator at the National Animal Disease Center in Ames and issue a report on this facility's safety. What is the status of this report?

Answer: ARS has completed the assessment of the effectiveness and safety of the necropsy incinerator at the National Animal Disease Center. A report is being prepared and will be forwarded to the Committee as soon as it is completed.

Question: Can this Committee expect to have the report before we begin the process of marking-up the FY 1991 Appropriation's Bill?

Answer: Yes, the Committee will have the report before beginning the process of marking up the FY 1991 Appropriations Bill.

NATIONAL SOIL TILTH LABORATORY

Question: What type of funding is recommended by the Administration for the National Soil Tilth Laboratory?

Answer: A total of $4,319,600 is recommended for support of the National Soil Tilth Laboratory in FY 1991.

Question: Does this allocation include a request for $1.2 million in equipment the lab has requested?

Answer: The $1.2 million request for equipment was issued before the laboratory became extensively involved in the Midwest groundwater quality initiative. Adequate funding to purchase equipment for the groundwater quality studies is in the recommended budget.

ARS FACILITIES

Question: Please list and describe the major research facilities of the ARS including Beltsville. Are these facilities adequate for supporting current research as outlined in your testimony?

Answer: ARS owns or occupies research facilities at 122 locations in the United States and at 6 locations in other countries. These facilities vary greatly in age and in their physical state of repair. With some exceptions these facilities are generally adequate to carry out the mission of the Agency. However, we are asking increased appropriations for 4 building and facility projects this year: National Seed Storage Laboratory, Fort Collins, Colorado; U.S. Fruit and Vegetable Laboratory, Yakima, Washington; Poultry Diseases Laboratory, Athens, Georgia; and for modernization of facilities at the Agricultural Research Center, Beltsville, Maryland. In addition, the budget request includes $17.364 million for general repair and maintenance of ARS facilities at other locations in the Agency. The Agency has formulated a long-term plan to improve the repair and maintenance of ARS facilities nationwide. The requested funds will support this plan.

A major research facility and the administrative functions of ARS are located at Beltsville. Most of the major facilities at the Beltsville Agricultural Research Center (BARC) were constructed in the 1930's and 1940's. Acute deterioration in the facilities hampers the quality of science and adversely reflects upon the image of the preeminent agricultural research center as a leader in the international scientific community. A modernization initiative was begun in 1985. An outside consultant estimates that about $260 million over a 13-year period will be required to bring this world class Center up to modern day standards. The request in this budget is consistent with this plan.

Question: How does the quality of your current facilities affect your current research?

Answer: Generally, ARS is able to carry out its research mission with current facilities. However, some investments to upgrade facilities will be required to conduct highly specialized types of research, to meet increasingly stringent safety and environmental regulations, to improve biological containment, to improve physical security, to meet higher standards of efficiency and good laboratory practices, to reduce indirect operating costs, and to attract and retain the highest quality research personnel. Our 1991 request includes funds for our four highest priority major facilities projects, as follows:

1. New National Seed Storage Laboratory at Fort Collins, CO - This facility is critically important to farmers nationwide and to the long-term health of U.S. agriculture.
2. Beltsville Agricultural Research Center (BARC) - Acute deterioration in the facilities hampers the quality of science and adversely reflects upon the preeminant agricultural research center as a leader in the international scientific community.
3. A new Fruit and Vegetable Laboratory at Yakima, WA - This facility would support research on the biology, ecology,

and control of insect and mite pests on deciduous fruits, vegetables, and field crops which are of economic importance to the Northeast part of the country. This facility becomes especially important in light of EPA's increasing pesticide restrictions.

4. An addition to the Poultry Laboratory at Athens, GA - This facility is necessary for the cost-effecting research on avian influenza, salmonella, and the potentially destructive New Castle disease.

Question: Could ARS expand current research effort if a new research center were established?

Answer: ARS generally believes that strengthening research at current centers is more appropriate. If a new research center were established, a proportional increase in program operating funds would also be required to expand the current research effort.

Question: Are there any research needs currently not being met because of limited or inadequate facilities?

Answer: ARS has extensive research facilities available to carry out its assigned research mission. Some new facilities are being requested in this budget and these will be critical to our continued research programs. There is a continuing need for repair, maintenance and alterations to provide fully functional facilities. With the support outlined in this budget, the Agency can effectively carry out its funded programs.

Question: What elements of the Beltsville Center are critical to its mission and to its site?

Answer: The Beltsville Agricultural Research Center is the world's largest and most diverse agricultural research complex It is widely regarded as the United States' national agricultural research center. It aggregates a large critical mass of scientific expertise in all agricultural disciplines, as well as specialized facilities and equipment not economically feasible at small research centers. The Center pursues a comprehensive program of research, including conservation of natural resources, protection of environmental quality, crop and animal productivity, product quality and use, human nutrition, and integrated systems for improving the profitability of the agricultural enterprise. The Center houses numerous special ARS research activities and collections, such as USDA Rhizobium Collection, National Parasite Collection, Biological Control Documentation Center, National Cooperative Dairy Herd Improvement Program, National Fungus Collection, etc. These are vital national resources which support the national and international scientific communities. Beltsville offers special opportunities to link food production research to food quality and human nutrition due to its close proximity to and cooperative projects with the National Institutes of Health, the Nation's premier health research complex. This symbiotic relationship with NIH involves cooperative research on biotechnology and human nutrition related to diet and health. The unique components, relationships, and elements of the research program contribute in a comprehensive manner to the strength of

Beltsville as a world class research center for American agriculture. Each element is critical to the future of the Beltsville Center in carrying out its mission to address the Nation's highest priority problems in agriculture, food, and nutrition.

IMPORTATION OF CHINESE SWINE

The Animal and Plant Health Inspection Service allowed Chinese swine semen to be imported into this country for research and commercialization purposes. Previously, I had worked with the ARS, Iowa State University, and the University of Illinois as these parties completed a joint agreement to import live hogs. Prior to APHIS's ruling, officials at Iowa State had been told by the ARS that the importation of semen was not possible. Please provide the following information:

Question: What was the ARS's involvement in this project?

Answer: The Agricultural Research Service, Iowa State University, and the University of Illinois finalized and signed a three-party cooperative agreement in mid-July 1988 to import three breeds of swine from the People's Republic of China (PRC). ARS established a contract with the China National Animal Breeding Stock Import and Export Corporation (CABS) to purchase three breeds of Chinese swine. The animals and the costs for quarantine in both China and the United States and the importation were shared equally by the three parties.

Question: What was ARS's understanding regarding the importation of germplasm prior to the APHIS ruling?

Answer: At the time the agreement was signed, APHIS did not have an approved protocol for the importation of semen established with PRC health and regulatory authorities.

Question: Why was this avenue not explored with the universities?

Answer: The universities and ARS met with APHIS in September, 1988 prior to the meeting with CABS. We were all advised that the protocol for importation of semen was not approved. Accordingly, we all agreed that it was best to import live animals.

Question: Why was this issue, involving two agencies under the authority of two separate Assistant Secretaries, not dealt with at a higher level?

Answer: Deputy Secretary Peter Myers traveled to the PRC in June of 1987 and expressed the desire of the USDA to import PRC swine. His office was designated as the official contact for the Department. Accordingly, his office was continually advised on the negotiations with Chinese officials and progress of the importation project.

Question: What communication procedures are currently followed between agencies to prevent future problems?

Answer: The coordination and communication of projects or research that involves any two or more agencies is accomplished through the offices of the Administrators of each agency.

Question: What can be done to ensure similar developments in international research or biotechnology are not handled in a similar manner?

Answer: On similar projects in the future, the Administrators of the agencies involved will be involved in the coordination and decision making process.

QUESTIONS SUBMITTED BY SENATOR HATFIELD

DINOSEB

Question: Please provide the Subcommittee with a progress report on the alternative to Dinoseb research.

Answer: ARS scientists at Pullman, Washington, are conducting a research program on alternatives to dinoseb for weed control in pulse crops. To date all possible herbicides and herbicide combinations have been evaluated for use in dry peas, lentils, and chickpeas. ARS data was used to obtain Section 18 emergency permits for use of Pursuit herbicide in Idaho, Oregon, and Washington for pulse crops in 1989 and a Section 18 permit for use of Pursuit in pulse crops during 1990 has been requested by the same states. ARS scientists in cooperation with university scientists will continue to evaluate various weed control technologies as a possible replacement for dinoseb.

RUSSIAN WHEAT APHID

Question: Please provide the subcommittee with an update on Russian Wheat Aphid research, and a report on the distribution of the FY 1990 funds.

Answer: ARS conducts research on Russian Wheat Aphid (RWA) in 8 major areas: (1) Host Plant Interaction, (2) Host Plant Resistance, (3) Small Grain Germplasm Development, (4) Alternate Hosts for RWA, (5) Insect Genetics, (6) Simulation Modeling, (7) Biosystematics, (8) Biological Control. Major accomplishments in FY89 include the discovery of 15 lines of barley and 200 lines of wheat with RWA resistance, the development of a simulation model for RWA population dynamics on wheat and barley. In addition, we have established cooperative arrangements between ARS and USSR and with China which have allowed exploration and collection of natural enemies in these countries. Additional explorations were conducted by the ARS European Parasite Laboratory in France, Jordan, Syria and Turkey. Natural enemies included parasites, pathogens and predators. The parasites and predators were imported into the United States through ARS quarantine facilities in Newark, DE and distributed to other Federal and State cooperators for release. The non-indigenous fungi are in quarantine at Ithaca, NY awaiting clearance for release into the US.

ARS current funding for RWA is $1,667,800 including the FY 1990 increase of $739,500 provided by Congress. The FY 1990 increase was distributed as follows:

Location	Activity	FY 90 Increase
Stillwater, OK	Host Plant Resistance IPM Strategy Develop Biocontrol Agents	$444,600
Ithaca, NY	Develop Microbial Control	$183,800
Headquarters	Support State & Federal Effort on RWA Biocontrol	$111,100

TCK SMUT RESEARCH

Question: Please provide the Subcommittee with an update on TCK smut research and a report on the distribution of the FY 1990 funds.

Answer: TCK is a common, but minor, disease of wheat in North America, particularly in upland areas where snow cover remains for extended periods of time. The disease is not effectively controlled by chemical seed treatment. Spores of dwarf bunt (TCK) and common bunt are nearly indistinguishable conclusively without time-consuming (weeks) confirmatory tests. The Peoples Republic of China claims that dwarf bunt (TCK) does not exist in their country. However, common bunt of wheat does occur in the PRC. The PRC identified smut spores as TCK in wheat imported from the U.S. in 1974. The PRC requires a zero tolerance, despite efforts to convince the PRC that there is little danger of introducing TCK into wheat-producing areas. Export of wheat to the PRC from the Pacific Northwest has virtually ceased. There are three approaches to resolution of this problem--host resistance, quarantine treatment, and a dedicated handling/transportation/ shipping system.

A joint ARS-PRC workshop on identification of TCK smut spores was held in Frederick, Maryland, November 27-December 8, 1989. At this workshop, a method for the statistical reliability of distinguishing TCK smut from common bunt spores was developed. In FY 1990, ARS will continue efforts at Aberdeen, Idaho, and Pullman, Washington, on host resistance. In addition, ARS will continue to develop techniques and molecular probes to differentiate dwarf bunt (TCK) from common bunt spores. ARS is currently administering $93,600 to identify means to sensitize TCK spores to subsequent quarantine treatment to assure absence of viable spores in commercial wheat shipments. The distribution of ARS funds in FY 1990 is $48,000 at Pullman, Washington, and $45,600 at East Lansing, Michigan.

BIOTECHNOLOGY IN VEGETABLE BREEDING PROGRAMS

Question: I am concerned that insufficient resources are being provided to public scientists for the development of competitive varieties of the major food crops - especially in the application of biotechnology in vegetable breeding programs. Please outline your efforts to provide adequate resources to public scientists specializing in this type of research.

Answer: We have committed considerable resources to the development of competitive varieties of food crops and the application of biotechnology techniques to vegetable and other important food crops. Since we believe the use of biotechnology techniques will greatly enhance the opportunity of plant breeders to transfer genetic material from widely diverse plant material, including vegetables, we have redirected many of our research programs to the development of specific genetic engineering techniques. We have tried not to have this redirection at the expense of conventional breeding programs. We need to use conventional breeding to develop commercially acceptable varieties once genetic engineering breakthroughs have been made. We also have monitored crop improvement and biotechnology research programs in the private sector. We have tried to avoid unnecessary duplication of effort and to concentrate ARS research in those areas not adequately covered by the private sector or State agricultural experiment stations.

PLANT GENOME RESEARCH PROJECT

Question: If funds are made available in FY 1991 for the Plant Genome Research Project, will a portion of the funds be allocated to vegetable species? If the funds are made available, please describe the method by which they will be allocated.

Answer: If funds are made available in FY 1991 for the Plant Genome Research Project, support for a wide spectrum of vegetable species will be made available on the basis of grants awarded by peer review of proposals submitted by scientists working on all crops and forest species.

MEADOWFOAM RESEARCH

Question: Please provide the Subcommittee with a progress report on Meadowfoam research, and a report on the distribution of the FY 1990 funds.

Answer: Meadowfoam is a source of long-chain fatty acids. Meadowfoam oil is currently being used in cosmetic formulations as a substitute for sperm oil. Other potential uses include lubricating oils, waxes, adhesives, surfactants, and plasticizers. Meadowfoam meal is a potential feedstuff for livestock. Specific research thrusts are being pursued at the following locations:

Corvallis, OR. Through a cooperative agreement with Oregon State University ARS is developing improved varieties of meadowfoam with increased seed yield and increased percentage of oil in the seed. Seed of three or four of the best current strains have been increased and are being evaluated by growers in on-farm tests. Also, we are developing improved cultural practices for growing meadowfoam, including plant spacing, nitrogen fertilization, weed control, reduction of disease, management of pollinating bees, and harvesting procedures.

Peoria, IL. ARS is conducting oil utilization research at our Northern Regional Research Laboratory, Peoria. Emphasis is being given to determining the chemical and physical uniqueness of meadowfoam oil and oil components for potential industrial uses.

The estimated distribution of FY 1990 funds for Meadowfoam research is $383,000 to Peoria, IL—with $165,000 of that amount designated for support of a specific cooperative agreement at Oregon State University, Corvallis, for continued agronomic production research.

NORTHWEST SMALL FRUIT CENTER

Question: The FY 1990 Senate and House Reports included $50,000 for a feasibility study for the proposed Northwest Small Fruit Center. When will this study be completed, and please provide the names and titles of the individuals who are preparing the report.

Answer: A preliminary plan covering both program and administrative details concerning the proposed Northwest Small Fruit Center is underway and will be completed in the third quarter of FY 1990. The names and titles of individuals preparing the program report are as follows:

Dr. Robert G. Linderman
Research Leader, ARS
Corvallis, Oregon

Dr. C. J. Weiser, Head
Department of Horticulture
Oregon State University

TRI-STATE POTATO BREEDING PROGRAM

Question: Please provide the Subcommittee with an update on the Tri-State Potato Breeding Program and a report on how and where the FY 1990 funds were utilized.

Answer: The Tri-State Potato Breeding Program continues to be an excellent example of cooperative research between ARS and State agricultural experiment stations. The ARS breeding programs at Aberdeen, Idaho, and Prosser, Washington, continue to annually produce over 100,000 seedlings for the Oregon, Washington, and Idaho State breeding programs as well as many advanced breeding lines. Rapid progress is being made in several areas including resistance to diseases such as leafroll and potato Y viruses and soft rot, blackspot, and hollow heart disorders. Three new potato varieties have been released from the program this year; Mazama and Gemchip chipping varieties and Frontier Russet. In FY 1990, we plan to provide $42,800 to each of the cooperating States (Idaho, Oregon, and Washington) in support of this Tri-State Potato Breeding Program.

QUESTIONS SUBMITTED BY SENATOR NICKLES

KENAF RESEARCH

Question: Kenaf Research -- Please provide an update on the status of kenaf research being conducted at the El Reno, Oklahoma, ARS facility.

Answer: A modest study on kenaf as a forage was carried out in FY 1988 to FY 1989. No kenaf research is currently in progress at El Reno; but research on kenaf is being conducted at 5 ARS locations in FY 1990.

Question: What funding has been allocated to this facility for fiscal year 1991?

Answer: The fiscal year 1991 budget allocated for El Reno is $1,591,900.

EL RENO ARS FACILITY

Question: El Reno ARS facility - Please provide a summary of the Service's research activities including the resulting benefits for agriculture interests in Oklahoma and neighboring regions.

Answer: ARS has a team of scientists at El Reno - 11 total staff years and $1,591,900 - working to increase the production of lean red meat from forages. This will be accomplished by increasing the quantity and quality of forage produced, by improving the yearly distribution of forage production, and by increasing the conversion of forages into lean meat by the grazing animal. During FY 90 research is being initiated to decrease the fat content of red meat and the re-establishment of a team to study the effects of multiple species use of native range and wheat forage.

This research will provide basic information to the farming/ranching community in Oklahoma and the surrounding region that will enable them to produce a more nutritious food product at a competitive price.

EL RENO, OKLAHOMA

Question: What is the status or result of discussions between ARS and the Cheyenne-Arapaho Tribe regarding the Tribe's proposal relative to the Ft. Reno lands and facilities?

Answer: On December 12, 1989, we met with representatives of the Cheyenne-Arapaho Tribe to discuss their proposal to develop a Fort Reno Tribal Agriculture and Ranching Research Project on the grounds of our Livestock and Forage Research Laboratory. At the meeting we confirmed the position previously conveyed to the Tribe which is that we are utilizing land and facilities to solve agricultural problems of national importance and to deal with some of the most critical problems facing farmers and ranchers in Oklahoma and the Southwest. Loss of any part of the facility would significantly impact this program.

Question: As part of the Tribe's proposal, they seek to restore historic buildings for use as a Tribal cultural center, museum and library in an effort to preserve and showcase the Tribe's heritage while promoting tourism and economic development. How would this aspect of the Tribe's proposal interact with current research activities?

Answer: As indicated in our meetings and in written correspondence exchanged with Tribe representatives, the proposal conflicts with the stated mission of the ARS Livestock and Forage Research Laboratory. The ARS mission at El Reno is to increase production of lean red meat from forages by increasing the quantity and quality of forages produced, improving the yearly distribution of forage production, and increasing the conversion of forages into animal products. The Tribal cultural center, while an important initiative, does not contribute to the ARS mission.

El Reno land and facilities are used in support of ARS' program. Research buildings are intermingled with historic structures. Research operations cannot be adequately secured from public intrusion, therefore, making it infeasible to co-locate the Tribal proposal with research programs.

Question: Please provide an inventory of current buildings on the lands, their state of repair, and their current use.

Answer: Please see attached chart.

FORAGE AND LIVESTOCK RESEARCH LABORATORY
EL RENO, OKLAHOMA

Building Number	Use
01	Office/Lab
02	Residence
03	Residence
04	Residence
05	Residence
06	Residence
07	Residence
08	Residence
09	Residence
10	Residence
11	Residence
12	Residence
13	Residence
14	Residence
15	Residence
16	Residence
17	Residence
18	Residence
19	Residence
20	Residence
21	Chapel
22	Granary
23	Granary

Building Number	Use
24	Livestock Sales
25	Paint Shed
26	Auto/Welding Shop
27	Plumbing Shop
28	Carpenter Shop
29	Warehouse
30	Filling Station
31	Warehouse
31A	Pesticide Storage
32	Implement Shed
33	Implement Shed
34	Bull Barn
35	Cattle Barn
36	Cattle Barn
37	Cattle Barn
38	Cattle Barn
39	Cattle Barn
40	Cattle Barn
41	Cattle Barn
42	Cattle Barn
43	Cattle Barn
44	Cattle Barn
45	Physiology Barn
46	Cattle Barn
47	Cattle Barn
48	Cattle Barn
49	Cattle Barn
50	Calf Feeding Barn
51	Metabolism Barn
53	Shelter
54	Shelter
55	Shelter
56	Shelter
57	Shelter
58	Shelter
59	Shelter
60	Shelter
61	Shelter
62	Shelter
63	Shelter
64	Shelter
65	Shelter
66	Shelter
67	Scale House
68	Scale House
69	Scale House
70	Sheep Barn
71	Sheep Barn
72	Swine Barn
73	Swine Barn
74	Swine Barn
75	Swine Barn
76	Swine Barn
77	Swine Barn
78	Swine Barn

Building Number	Use
79	Swine Barn
82	Hay Shed
85	Seed Cleaning Shed
86	Storage
87	Garage
88	Garage
89	Garage
92	Metal Shed
93	Residence
95	Alco Steel Building
96	Feed Mill Complex
96A	Boiler Building
96B	Hay Storage
97	Pole Barn
98	Wool Shed

State of Repair

In full consultation with the Oklahoma State Historic Preservation Officer (SHPO), a plan has been undertaken for the repair and upkeep of El Reno facilities. In 1989, a $56,000 contract was let to paint 12 buildings and termite treat 13 buildings. In addition, $50,000 was expended to replace gutters, reroof buildings, replace windows, and to accomplish other work of a stabilizing nature. In Fiscal Year 1990, $37,000 is planned for additional repair/ maintenance of facilities. Two buildings, 8 and 11, are being proposed for demolition. The SHPO has stated that removal of the buildings will have no adverse effect on the site's historic classification.

LANE, OKLAHOMA

Question: South Central Agricultural Research Center, Lane, Oklahoma. Please provide a summary of the work being conducted at this facility.

Answer: We have 15 research projects (9 federal and 6 state) at the ARS South Central Agricultural Research Center which include research on fruit and vegetable cultural management systems; evaluation and production of vegetable varieties for the South Central States; control of corn earworm and other vegetable insect pests; control of postharvest disease problems of fruits and vegetables; development of improved postharvest storage of fruits and vegetables for maintenance of market quality; production practices for kenaf; and catfish production, processing, and marketing practices. Research is conducted on a wide variety of fruit and vegetable crops considered to have potential for commercial production. These include peaches, grapes, blueberries, blackberries, strawberries, asparagus, Irish potatoes, sweet potatoes, beans, peppers, tomatoes, broccoli, onions, cabbage, okra, watermelon, cantaloupe, squash, and turnips. All the research is cooperative with Oklahoma State University (OSU) which has six OSU scientists located on site.

SOUTH CENTRAL AG RESEARCH CENTER, LANE, OKLAHOMA

Question: $150,000 was appropriated to the ARS in fiscal year 1990 for preliminary planning of additional buildings and facilities at this ARS center. What is the status of this funding?

Answer: In FY 1989 and FY 1990, a total of $290,000 has been appropriated for planning and design of phase III of the project which consists of a 10,580 square foot office and laboratory addition, a 4,000 square foot addition to the headhouse/greenhouse, a 9,216 square foot pre-engineered metal building for post harvest research and storage, and chemical storage buildings. A contract for pre-design and design phase services is scheduled for award during the second quarter FY 90. Planning should be complete by the first quarter of FY 1991.

Funding for this project is not included in the FY 1991 budget request. Additional appropriation required for this facility will be considered along with other priority needs in future budget recommendations.

PRESERVATION AND PROCESSING RESEARCH, OKLAHOMA

Question: $267,000 was appropriated as a CSRS special research grant for preservation and processing research at this ARS center last year. What is the status of this funding?

Answer: These funds are being used by the Oklahoma Agricultural Experiment Station to conduct research on the effect of various postharvest horticultural practices on the biological and physical condition of processed fruits and vegetables, and the development of new and improved harvesting, handling, and storage techniques, from harvest to marketing of the final product. Many of the factors responsible for product deterioration, including loss of water, photosynthate, minerals, type of packaging, and storage conditions have been identified. CSRS has requested the Oklahoma Agricultural Experiment Station to submit a grant proposal for fiscal year 1990 that has not yet been received.

WOODWARD, OKLAHOMA

Question: Southern Plains Range Research Station, Woodward, Oklahoma - Please provide a summary of the work being conducted at this facility.

Answer: The ARS has a team of four scientists at Woodward with expertise in range science, agronomy, and soil science. The research being conducted concerns the structure and function of the Southern Plains range and related ecosystems, enhancement of forage germplasm of native and introduced species, and development of energy, nutrient, water, and fiscally efficient forage-livestock systems. The research is approached through five specific research areas: 1) germplasm evaluation and enhancement, 2) plant physiology, morphology, and ecology, 3) soil-plant relations, 4) plant-animal interactions, and 5) systems ecology.

Question: This ARS station has made great progress with a highly productive and palatable perennial forage, gamagrass. An estimated $450,000 for additional scientists and technical support, and $750,000 for research facilities would greatly enhance the progress of gamagrass research. What is the funding capability for this project?

Answer: The present FY 90 funding for the Woodward location is $960,900. ARS plans to continue the level of support for the projects at this location.

Funding for this project is not included in the FY 1991 budget request. Additional appropriation required for this facility will be considered along with other priority needs in future budget recommendations.

QUESTIONS SUBMITTED BY SENATOR BURNS

FUNDING OF RESEARCH PROPOSAL - SIDNEY, MONTANA

Question: The Agriculture Research Service Station at Sidney, Montana, would like to establish a comprehensive dryland and irrigation research program to improve the economic viability of agriculture in Northeastern Montana and Western North Dakota. They would work in conjunction with the Montana Agriculture Experiment Station and the adjacent North Dakota Agricultural Experiment Station at Williston, North Dakota.

Are you aware of this proposal, and if so, do you think it is meritorious? Would the Department be supportive of an attempt to fund such a proposal?

Answer: The Department is aware of this proposal, and of the difficult conditions facing many of our farmers in the Plains of Montana. Our priorities are reflected in the 1991 budget.

MONTANA

Question: As you know, there are three ARS stations in Montana (Bozeman, Miles City, and Sidney). The Administration's budget request recommends no funding increases for any of these stations in FY 91. This is, in effect, a decrease in funding for all three stations. I believe that the research being conducted at these stations is valuable not to mention the fact that each of the stations could be doing much more in the way of drought research or research for alternative crops that do well in dry areas or drought conditions.

Where does the department envision these cuts being made at each of these stations? Does the Department have any future plans for these stations other than maintaining the status quo?

Answer: No budget reductions are planned for Bozeman, Miles City, and Sidney, Montana in FY 1991. However, unfunded salary increases and inflation will reduce the purchasing power of the budgets planned for these locations. The Department is committed to maintaining viable research programs within available funding levels in the three ARS locations in Montana.

QUESTIONS SUBMITTED BY SENATORS GRAHAM AND MACK

ORLANDO RESEARCH FACILITY

Question: You are aware of our interest in working with ARS to relocate the ARS research facility that is presently situated in the City of Orlando. We understand that this facility originally was constructed in 1952 after the City of Orlando deeded the land to ARS for $1.00 so that ARS could build a facility to conduct primarily citrus related research activities. At that time, the facility was located in a rural area of Orlando and it was widely believed that the site would accommodate any long-term growth requirements. However, as you are aware, Orange County and the City of Orlando, in particular, have experienced explosive growth in recent years and the City can no longer accommodate any future expansion of the Orlando ARS facility. Moreover, the City of Orlando now desires to reclaim the land on which the ARS facility is located so that it can develop needed community and cultural facilities.

We understand that you are reviewing several potential sites in central Florida to move the Orlando research facility. This review has resulted in the identification of a number of suitable land sites on which a new agriculture facility could be constructed and where long-term expansion of that facility can be easily accommodated.

Since the relocation of the Orlando ARS facility has the support of the community and business leaders in the City of Orlando, we would like to work with you to see if we can move this project forward in the 1991 fiscal year budget cycle. Toward that end, we would like you to provide an estimate of the cost of relocating the Orlando ARS facility to one of the sites that you consider suitable for such relocation.

Answer: The following preliminary cost estimate is provided. We must caution that this estimate would be subject to change based upon a final definition of the project scope and completion of an appropriate level of architectural and engineering planning:

Component	Cost (Estimate)
Land (80 acres) *	$ 1,600,000
Preliminary Planning/Design	2,000,000
Preliminary Construction/Equipment ** (120,000 s.f.)	23,000,000
Staff Relocation	1,000,000
Total	$27,600,000

Funding for this project is not included in the FY 1991 budget request. Additional appropriation required for this facility will be considered along with other priority needs in future budget recommendations.

*While no specific site has been selected, this would be the cost to relocate to a rural site located in Polk County. Given that the sites identified to date have proved unworkable, we are in the process of identifying additional sites which can then be evaluated for the horticultural crops research program.

**Figure is escalated to Fiscal Year 1992.

COOPERATIVE STATE RESEARCH SERVICE

QUESTIONS SUBMITTED BY SENATOR BUMPERS

NATIONAL RESEARCH INITIATIVE

Question: As we have recently discussed, I am very supportive of the thrust of the National Research Initiative, but I have real concerns about whether smaller land grant and other agricultural universities, such as the University of Arkansas at Pine Bluff, will be given a fair shot at competing for available competitive funds. The history in this regard is not good. What assurance will be given that the National Research Initiative will include smaller schools in successful competition?

Answer: The Initiative has proposed funding at ten percent to be awarded to strengthen the institutions who traditionally have been less competitive for grants. Although plans have not been finalized some of the techniques proposed include: Three year "seed grants" to scientific investigators who have not received a competitive grant for the past five years to enable the new investigator to accumulate data to use in a later application for a competitive grant. This is similar to the National Science Foundation program called Experimental Programs to Stimulate Competitive Research; Allow successful grant recipients at research universities to expand their program to bring in a faculty member from one of the institutions building their research capabilities, as well as minority faculty; and Support post-doctoral and graduate students from these institutions to attend other research universities to gain experience to strengthen their institutions.

PEER REVIEW PROCESS

Question: Recently, I requested of Secretary Yeutter that he provide data over the last five years of competitive grants awarded, recipient schools, requests received, and research to be conducted. Will you expand on this information by providing an explanation of the peer review process with an identification of the schools represented on the committees over the same five year period?

Answer: All State Agricultural Experiment Stations, colleges, universities, other research institutions or organizations, Federal agencies, private organizations, corporations and individuals are eligible to compete for grants under the Competitive Research Grants program. To assist in equitably and objectively evaluating grant proposals and to obtain the best possible balance of viewpoints the Department of Agriculture solicits the advice of peer scientists who are recognized specialists in the research areas covered by the applications received to review the proposals. Peer panel members are chosen based upon their training and experience in relevant scientific or technical fields taking into account the following: the quality of their recent scientific work published in peer reviewed journals, and the need of the group to include within its membership experts from various areas of specialization within relevant scientific or technical fields; the need of the group to include within its membership experts from a variety of organizational types and geographical locations; and the need of the group to maintain a balanced membership, e.g. minority and female representation and age distribution. The peer review group evaluates all proposals taking into account the following factors: scientific merit of the proposal; objectives and approach; human and physical resources; impact of anticipated results; probability of success of project; and projected economic feasibility for near-term application. Applications are ranked and support levels recommended within the limitation of total available funding for each program area. This thorough peer review process ensures a comprehensive and equitable evaluation of the grant proposals submitted by all applicants. The research proposals are sent to the scientists for their review and evaluation prior to their meeting as a panel. The panel meeting usually lasts for a three-day period depending on the number of applications received. A list of scientists from government, universities, and industry who served on USDA/CSRS peer review panels for fiscal years 1985 through 1989 will be submitted.

SCIENTISTS WHO SERVED ON USDA/CSRS PEER REVIEW PANELS FOR FISCAL YEAR 1989

Scientists from government, universities, and industry served on USDA/CSRS peer review panels this past year. Each panel was put together to fit the expertise needed for that specific granting area. The scientists involved are listed below alphabetically within their respective States.

ALABAMA

Yolonda Brady
Auburn University

David E. Briles
University of Alabama

Edward M. Jenkins
University of Alabama

Victor Panangala
University of Alabama

John A. Plumb
Auburn University

Stephen P. Schmidt
Aurburn University

D. A. Stringfellow
University of Alabama

Douglas A. Weigent
University of Alabama

ARIZONA

Robert E. Blankenship
Arizona State University

Hans J. Bohnert
University of Arizona

Henry H. Hagedorn
University of Arizona

Roger A. Sunde
University of Arizona

Elizabeth Vierling
University of Arizona

ARKANSAS

Hubert Donovan Scott
University of Arkansas

CALIFORNIA

Daniel Arp
University of California

CALIFORNIA-continued

Ericka L. Barrett
University of California

Winslow R. Briggs
Carnegie Institution
of Washington

Bruce C. Campbell
USDA, ARS

Michael L. Christianson
Zeocon Research Institute

William O. Dawson
University of California

Pamela Dunsmuir
Advanced Genetic Sciences,
Inc.

Curtis D. Eckhert
University of California

Brian A. Federici
University of California

CALIFORNIA-continued

Graham Gall
University of California

Laurel J. Gershwin
University of California

David G. Gilchrist
University of California

Rasika M. Harshey
Research Institution of
Scripps Clinic

Jodie S. Holt
University of California

Carl L. Keen
University of California

J. Clark Lagarias
University of California

Mark A. Matthews
University of California

Edward G. Platzer
University of California

Daniel S. Straus
University of California

Phillip Thornber
University of California

CALIFORNIA-continued

Elaine M. Tobin
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SCIENTISTS WHO SERVED ON USDA/CSRS PEER REVIEW PANELS FOR FISCAL YEAR 1988

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SCIENTISTS WHO SERVED ON USDA/CSRS PEER REVIEW PANELS FOR FISCAL YEAR 1986

Scientists from government, universities, and industry served on USDA/CSRS peer review panels this past year. Each panel was put together to fit the expertise needed for that specific granting area. The scientists involved are listed below alphabetically within their respective States.

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FUNDING FOR RESEARCH GRANTS

Question: Will you compare the percentage of USDA research funds going to both external special grants and competitive grants to the same for NIH and HHS?

Answer: In 1990, the USDA research program of $1,145.0 million is composed of $55.8 million of Special Research Grants or 4.9 percent and $38.6 million of Competitive Research Grants or 3.4 percent. In the 1991 President's Budget the USDA research program of $1,196.7 is composed of $25.6 million of Special Research Grants or 2.1 percent and $100.0 million of Competitive Research Grants or 8.4 percent. In 1990 the NIH external research grants program of $6.1 billion is 80.2 percent of the total $7.6 billion NIH budget. In the 1991 President's Budget the NIH external research grants program of $6.3 billion is 79.9 percent of the total $7.9 billion NIH budget.

FOOD SAFETY CONSORTIUM

Question: For the last two years, Congress has provided funds for the Food Safety Consortium which includes the University of Arkansas at Fayetteville, the University of Arkansas for Medical Sciences, Kansas State University, and Iowa State University. This Consortium has made several recent breakthroughs in the area of rapid detection and prevention, and I have heard from several sources that CSRS is very high on its work. Unfortunately, the Consortium was not included in the budget request. Will you provide a status report on the work of this consortium as well as your thoughts, if money were available, of whether this consortium should be expanded to be an institute involving other universities with expertise in dairy, seafood, grains, fruits, and nuts food safety research?

Answer: The Food Safety Consortium has made progress in implementing its research program, especially in the development of rapid detection methods for microbiological contamination and identifying several interdiction points for removal of contaminants. A considerable amount of research remains to be accomplished before these techniques meet the criteria for commercial use. At the present time, the Consortium is engaged in developing a strategic plan with the advice of industry and public officials to identify key food safety issues and research objectives that will ensure the program is focused on high priority problems and accomplishes its work in a cost effective and timely manner. In order to prevent duplication, research efforts are coordinated with those in the Agricultural Research Service as well as with the work of the Food Safety Inspection Service. The ARS budget includes a $10.8 million increase for food safety research in 1991.

QUESTIONS SUBMITTED BY SENATOR HARKIN

COMPETITIVE RESEARCH INITIATIVE

Question: In regard to the Competitive Research Initiative within CSRS, I am concerned with the very low level of priority that was placed on new product development, processes and value added category. There are no FY 91 funds proposed at all for this area within that program. And, from materials I have seen, even if three times the money was available for these competitive grants, the Administration would have only placed nine percent of that sum into this area. For Marketing, Trade and Policy, there was also no funding listed. These are the areas in which research is likely to result in expanded agricultural markets for our commodities. I believe that the priorities are not what they should be. I would appreciate your providing me with a detailed explanation of why these areas are set at zero in the competitive research program.

Answer: The National Research Initiative for FY 1991 includes the current Competitive Research Grants program and includes funds to support animal health research formerly funded under the Special Research Grants program. All six areas of the Program Plan for the Initiative are of great importance, but with the $50 million increase it was felt that only four of the six research areas could be funded and still have significant programs. The current areas of animal systems, plant systems and human nutrition will be modestly increased to increase the size of grants from an average of $56,000 per year, extend the length of grants from an average of 2.2 years, improve the success rate from 20 percent, and initiate a plant genome mapping program. New research was selected for support with the proposed increase in natural resources and the environment which includes global change, water quality and sustainable agriculture.

In the proposed second year, funding for two new areas will be supported: Processes Antecedent to Adding Value and Developing New Products and Market, Trade and Policy. The Competitive Research Grants program was originally initiated to study basic biological processes to develop a foundation knowledge which will eventually allow applied and technological development research to move ahead expediciously. These basic studies can be equally valuable as base knowledge in relation to value added and new product development.

Question: I would like your detailed views on how you would allocate funds between non-food products research, other new products research, Process research and value added research if $20 million and $50 million was available for these areas of research. I understand that there is some overlap. But, with whatever explanation of overlap is necessary, how would you divide possible research dollars between those areas and why?

Answer: Funds allocated to product and process research and development play an important role in catalyzing new and improved uses for agricultural commodities, both in food and non-food uses. This is especially true for non-food uses where private industry is less familiar with agriculture as a supplier of industrial raw materials and chemical feedstocks. ARS and CSRS are currently spending about $64 million on food and non-food products and processes. The Program Plan for the National Research Initiative calls for funding a research area on processes antecedent to adding value and developing new products. This area would begin at $10 million when the total program level is $150 million and this area could eventually reach $45 million. This additional funding could be devoted to a broad program of directed projects leading to accelerated commercialization of industrial uses.

New efforts in processing and adding value to raw products offer not only overall enhanced economic activity, but also specific development of new markets for raw agricultural commodities. This enhancement includes the use of traditional commodities for the development of new products. The disciplinary efforts supporting research in this area include food science and forest products, basic bioscience disciplines, engineering and physics. These multidisciplinary efforts ensure the development of fundamental knowledge that can be applied to modern new manufacturing and processing methods. The new initiative in this area encompasses a broad set of research needs and opportunities. These include consumer preferences, food safety and stability, food product convenience, and the use of modern biotechnology methods for bioconversion to create new products, packaging, and transportation technology.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

AQUACULTURE EDUCATION

Question: Last year, a new higher education program was funded at a level of $500,000 to infuse aquaculture education into the vocational agriculture curriculum. This program was developed by the National Council for Vocational and Technical Education in Agriculture. What is the status of this project?

Answer: The FY 1990 Appropriations Act for Rural Development, Agriculture, and Related Agencies included an appropriation of $247,000 to be awarded competitively for the purpose you indicated. We are currently preparing the necessary materials to announce the availability of the money and solicit proposals. We are in the process of preparing the Program Announcement to be published in the Federal Register to solicit proposals. After publication of a Program Announcement and receipt and evaluation of proposals, we anticipate awarding a grant by early summer to a college or university to initiate the work.

AQUACULTURE

Question: The Economic Research Service of USDA last year issued a report which stated that aquaculture was the fastest growing agricultural industry in the United States. Yet, USDA has eliminated much of the funding for aquaculture research, including the funding of the regional Aquaculture Centers. How do you justify this action? Are you relying on the Committee and Congress to restore funding for this important program? Does this program somehow fit into the competitive grants "Initiative?" How?

Answer: We are aware of the ERS report and the importance of aquaculture as a major agricultural opportunity. The Department of Agriculture has a number of programs to assist the aquaculture industry including those in the Agricultural Research Service.

The Cooperative State Research Service supports aquaculture research through the Special Research Grants Program, direct Federal Administration funds, and through the allocation of formula funds to States. In addition the Cooperative State Research Service, in cooperation with the Extension Service, also administers The Regional Aquaculture Center Program for the performance of regional research and extension activities. Although CSRS has not included funding of the Regional Aquaculture Centers in the 1991 budget request, CSRS will continue to work with the centers in developing strong regional research and extension educational programs with formula and State funding. Aquaculture research could be addressed as a part of the competitive grants "Initiative" program under animal systems research.

COMPETITIVE GRANTS

Question: Dr. Hess, in your statement you indicate that you have included provisions in the new "initiative" to "strengthen the capability of traditionally less competitive institutions to compete for grants through the program." Will you please be more specific and define these provisions for the Committee?

Answer: The Initiative has proposed funding at ten percent to be awarded to strengthen the institutions who traditionally have been less competitive for grants. Although plans have not been finalized some of the techniques proposed include: Three year "seed grants" to scientific investigators who have not received a competitive grant for the past five years to enable the new investigator to accumulate data to use in a later application for a competitive grant. This is similar to the National Science Foundation program called Experimental Programs to Stimulate Competitive Research; Allow successful grant recipients at research universities to expand their program to bring in a faculty member from one of the institutions building their research capabilities, as well as minority faculty; and Support post-doctoral and graduate students from these institutions to attend other research universities to gain experience to strengthen their institutions.

QUESTION SUBMITTED BY SENATOR KASTEN

NATIONAL RESEARCH INITIATIVE

Question: Dr. Hess, I am very interested in the National Research Initiative. Would you explain to me its exact effect on the competitive research grants program? My understanding is that this enlarges the pool of funds available for such grants, but does it redirect their emphasis?

Answer: The National Research Initiative is proposed to increase in increments of $50 million each year through FY 1995 to a level of $300 million. Currently four of the six major research areas proposed in the Initiative are recommended for funding. These include animal systems, plant systems and nutrition, food quality and health, which are currently funded through the Competitive Research Grants program, plus a new research area, natural resources and environment. Our current plan is that the next level of funding, proposed at $150 million for FY 1992, would add two new research areas, which are market, trade, and policy; and processes antecedent to adding value and developing new products. The Competitive Research Grants program has generally been directed to basic research with a few exceptions, forest biology and wood utilization. The Initiative has 70 percent of the funding committed to basic research of which a part is to be multidisciplinary research. Twenty percent of the program will be mission-linked research and ten percent committed to a strengthening program to assist institutions with limited success in competing for grants.

QUESTIONS SUBMITTED BY SENATOR SPECTER

NATIONAL RESEARCH INITIATIVE

Question: I am pleased that President Bush and the United States Department of Agriculture have been supportive in expanding our agriculture research agenda. The budget released in January included $100 million to address the National Research Initiative. In addition, the Office of Management and Budget has indicated that an additional $50 million upgrade will be provided each year until a $300 million level is reached. The National Association of Land-Grant Colleges and Universities, as well as the Experiment Station Director's National Organization, have outlined a need for $500 million. Is this goal attainable under today's budgetary constraints? And, if such an appropriation is capable, what conditions do you see necessary to reach the goal of $500 million?

Answer: I am pleased with your support of expanding our agriculture research agenda. The National Research Initiative --NRI-- evolved from recommendations of the National Research Council concerning investments needed to keep our agriculture industry in a highly competitive mode internationally. With the tremendous investments being made by our competitor Nations in basic and applied research we are at risk in keeping our competitive edge on technology. The Administration has recognized the need for additional agriculture research and has made a commitment to increase this program by $50 million a year. The 1991 budget provides projections through 1995 which shows the NRI at a level of $300 million by 1995. We anticipate that funding for the NRI will continue to increase until the $500 million level is reached. Although results from basic fundamental science often take many years to be realized, we expect that results from the balanced program proposed in the Initiative, including individual investigator, multidisciplinary, and mission-linked research, will show the value of the investment of new funds in future years.

INTERNATIONAL AGRICULTURE

Question: In light of the changing political situation around the world (i. e. Latin America, Germany, and the Soviet Union), do you see an expanded role for our Land Grant Universities and Colleges in addressing the opportunities in International Agriculture?

Answer: The political dynamics and internationalization of agricultural and forest products markets open many new opportunities for our Land Grant Colleges. This rapidly changing political and economic scene requires almost constant re-evaluation for the U.S. to maintain and improve upon its competitive position in world markets. In the area of research, the Land Grant Colleges are well prepared to conduct multidisciplinary studies on the impacts of foreign cultures and demographics on demand and utilization of food, fiber, and forest products that are or might be produced by our producers and processors. The Universities could conduct market assessment studies to estimate the potential size of export markets. Other studies could focus on analyses of foreign trade barriers and market structure impediments and develop strategies for overcoming them. The Universities might conduct research on the effectiveness of trade promotion policies for the purpose of developing more effective policies. And, the Universities are well prepared to develop new products for export that would meet the tastes, incomes, and product standards of foreign nationals. Much of this research effort should be targeted at our smaller and medium sized businesses that lack the financial resources to conduct such research and assume the risk associated with marketing new products internationally.

The Universities through their extensive networks with foreign universities are in an excellent position to acquire and evaluate information about new technologies that might be transferred to the United States for the benefit of our economy. In collaboration with the Cooperative Extension Service, the Universities could transfer both the research information they generate and new technology information to private industry in order to enhance their competitiveness.

The Universities can meet the challenge of academic reform needed to provide curricula and short courses to increase public and business awareness of export market opportunities and on how to conduct business in foreign markets. Tailoring academic programs to emphasize development of human capital for careers in international commerce will provide the future leadership the U.S. needs to remain viable in world trade.

RURAL DEVELOPMENT

Question: In January, the Economic Policy Council Working Group on Rural Development released an excellent report and series of recommendations. What do you see as the timetable for the "Plan of Action" and the source of funds necessary for the implementation?

Answer: The implementation plan and resource analysis is in the process of being prepared. We anticipate the initial meeting of the Advisory Group on Rural Development will be held in about three months.

ALTERNATIVE FARMING RESEARCH

Question: The September 1989 National Academy of Sciences report on Alternative Agriculture recommends substantial annual funding of $40 million for alternative farming research. Subsequently, the National Initiative for Research on Agriculture, Food and the Environment provided only $1 million for this important research. While I applaud the budget proposal for additional funding of agriculture research, do you see the Department moving towards the funding level proposed by the National Academy of Sciences as the initiative expands?

Answer: FY 1990 funding for alternative farming research is $4.4 million. The Administration has recommended about the same funding level for FY 1991. These funds support the Department's Low-Input Sustainable Agriculture --LISA-- research and education program authorized in the Food Security Act of 1985. The $1 million for alternative farming research included in the National Initiative for Research on Agriculture would be in addition to the $4.4 million request for LISA. The Administration will continue to weigh carefully the recommendations in the 1989 National Academy of Sciences report on Alternative Agriculture as we plan and carry out this program and related research.

QUESTIONS SUBMITTED BY SENATOR GRASSLEY

AQUACULTURE EDUCATION

Question: Dr. Jordan- Last year, the Congress appropriated funds for a project to infuse aquaculture training into our current agricultural education programs. Could you please provide an update on this project?

Answer: The FY 1990 Appropriations Act for Rural Development, Agriculture, and Related Agencies included an appropriation of $247,000 to be awarded competitively for the purpose you indicated. We are currently preparing the necessary materials to announce the availability of the money and solicit proposals.

Question: Have the appropriated funds been awarded yet? If not, how soon will this grant be made?

Answer: We are in the process of preparing the Program Announcement to be published in the Federal Register to solicit proposals. After publication of a Program Announcement and receipt and evaluation of proposals, we anticipate awarding a grant by early summer to a college or university to initiate the work.

Question: Does the Department support this project? If so, why was this project not included in your FY 1991 budget request?

Answer: The Department does not have primary responsibility for undertaking activities to strengthen vocational agriculture programs. This responsibility rests with the Department of Education, and they receive appropriations to carry out this responsibility accordingly.

We are interested in such education programs, however, since they help to prepare and motivate high school students to obtain a college or university degree in an area of the food and agricultural sciences. National initiatives which lead to improvement of the quality of high school agricultural education are definitely beneficial to college recruitment efforts.

QUESTIONS SUBMITTED BY SENATOR NICKLES

EXPANDED WHEAT PASTURE RESEARCH

Question: In fiscal year 1989, Congress appropriated a $400,000 CSRS special research grant for first year funding of an expanded wheat pasture research program conducted by Oklahoma State University. In fiscal year 1990, budgetary pressures necessitated a reduction in the appropriation for this project. A $150,000 CSRS special research grant was appropriated in fiscal year 1990. The Expanded Wheat Pasture Research Center was recently dedicated and is now initiating its crucial research. It is imperative that we appropriate sufficient funds to continue this worthwhile effort. What is CSRS funding capability for this project in fiscal year 1991?

Answer: The Special Research Grants program concentrates on problems of national and local interest beyond the normal emphasis in the formula programs. The Hatch Act formula and related base funded programs constitute the core of the State-Federal research partnership and, when put together with State funding, provide the basic laboratory facilities, scientists, graduate students, and support necessary for the long term stability of agricultural research. Thus, these base programs become the highest priority of the State-Federal research partnership. Due to the discretionary nature of the Hatch Act formula and related base funded programs, amounts allotted to State institutions permit the institutions to fund research in those areas that they identify as high priority. This flexibility could provide for maintaining this program if Oklahoma State University wishes to continue the research.

NATIONAL CENTER FOR EQUINE AND BOVINE BIOTECHNOLOGY RESEARCH

Question: The Congress appropriated $300,000 planning money for buildings and facilities for this project in fiscal year 1990. What is the status of this funding?

Answer: CSRS has written to Oklahoma State University requesting that an application for the planning phase of this project be submitted by May 1, 1990. Upon receipt, the proposal will undergo peer evaluation and administrative review, with an anticipated award date of early July 1990.

QUESTIONS SUBMITTED BY SENATOR BURNS

EFFECTS OF FUNDING CUTS IN MONTANA

Question: In the President's budget you recommend cuts at both the University of Montana School of Forestry under the McIntire-Stennis Cooperative Forestry Research Act and at the Montana State University Agricultural Experiment Station under the Animal Health and Disease Research program. What effect will these cuts have on the research being conducted at these two locations?

Answer: A portion of the McIntire-Stennis Cooperative Forestry program is proposed for elimination, however, the State Agricultural Experiment Stations and Forestry Schools have maximum flexibility under this program to tailor research according to specific needs and can continue to fund research in those areas that they identify as highest priority. Ongoing Federal and State forestry research efforts will also continue under other authorizations. In addition, funds for forestry research will be available on a competitive basis through the National Research Initiative.

The Animal Health and Disease Research program has provided funds on a formula basis for livestock and poultry disease research at accredited colleges of veterinary medicine and State Agricultural Experiment Stations. Research formerly conducted under this program may be continued under the expanded Animal Systems component of the National Research Initiative. The National Research Initiative will better target funds to projects of highest scientific merit and most closely tied to national priorities.

Both the University of Montana and Montana State University will be eligible to compete for forestry and animal health research funds under the National Research Initiative.

BIOSCIENCE RESEARCH LAB

Question: The Department once again has recommended no funding for the new Bioscience Research Lab at Montana State University despite the fact that the Congress has recognized it as a meritorious project. Why does the Department continue to oppose the MSU Bioscience Research Lab?

Answer: We have supported increases in high priority research programs. Given the priority for research rather than construction, the Department has not requested funding for the Montana State University Bioscience Research Lab or any other University facilities.

QUESTIONS SUBMITTED BY SENATOR HATFIELD

ALTERNATIVE TO DINOSEB, OREGON

Question: Please provide the Subcommittee with a progress report on the Alternatives to Dinoseb research.

Answer: Research is being conducted primarily at Oregon State University with some research at Washington State University. Various weed control practices are being researched as alternatives for dinoseb in snapbeans, peas, caneberries, Willamette Valley wheat, and small-seeded legumes within the Pacific Northwest. In addition, pesticide residue analyses for establishing national tolerances using IR-4 guidelines are being conducted. Sufficient data has been generated this past year to support the registration of caneberries. In addition to the data for caneberries, they expect sufficient data for possible registration for several other herbicide alternatives to dinoseb within the next several years.

RUSSIAN WHEAT APHID

Question: Please provide the Subcommittee with an update on Russian Wheat Aphid research, and a report on the distribution of the FY 1990 funds.

Answer: This coordinated, collaborative program involving the USDA/Agricultural Research Service, USDA/Animal and Plant Health Inspection Service, USDA Cooperative State Research Service and partner State Agricultural Experiment Stations, USDA Cooperative Extension Service, and USDA Economic Research Service has successfully initiated a multi-tactic IPM research program for Russian Wheat Aphid. This cooperative effort has extended internationally to involve 10 scientists from eight different national and foreign institutes. A major search for natural enemies of this pest has been initiated with considerable success. Following the discovery of the native home of the pest aphid, about 75 shipments were made in 1989 and 42 separate cultures of natural enemies are being maintained. These enemies include parasitic wasps, predaceous flies, predaceous beetles, and pathogenic fungi. Currently, other species are being sought through the national and international network of scientists. The imported species are being tested before release, and those that are suitable for release are being distributed to collaborators throughout the infested states. Tests are being conducted to determine if the released beneficial insects have established permanently and if these natural enemies are capable of providing control of the pest.

Germplasm from wheats originating from the original home of the aphid also have exhibited significant levels of resistance to the aphid and its feeding damage. These sources of genetic material are available for further breeding into commercial varieties. Moderate levels of resistance already have been identified in some breeding lines and in one commercial variety, "Treasure" from Idaho. Special methods for evaluating wheats and barleys for resistance to Russian

Wheat Aphid have been developed and additional breeding lines and exotic germplasm continue to be evaluated for resistance.

Scientists have found pesticides which are effective against Russian Wheat Aphid. It also is important that scientists have determined the economic injury level for the aphid on wheat. Producers can use this economic injury level to determine if populations of aphids warrant control, thus avoiding control unless damaging numbers are actually present and likewise assuring that damage is avoided if numbers warrant control. This knowledge allows for prudent and economical use of pesticides.

These scientists also have gained insight to the pest's biology and development so that by using a network of traps that sample the air for flying aphids they can warn producers that the aphids are colonizing their wheat and other small grains in significant numbers. Also, the information on development, growth and the numbers that are killed by native predators, parasitic wasps, and diseases allows pest control advisors and extension agents to predict damage potential, again helping avoid crop loss and at the same time conserve the use of pesticides unless fully warranted.

Extension specialists have released numerous informational booklets and pamphlets to help producers identify the pest and its natural enemies and to advise them of conditions wherein control by pesticides can be avoided or is justified. A Russian Wheat Aphid newsletter has been published for two years and alerts other scientists and extension specialists of new findings on this pest.

The funds appropriated in FY 1990 will be distributed as follows: $93,717 to Washington, $78,097 to California, $78,097 to Oregon, and $78,097 to Idaho.

TCK SMUT

Question: Please provide the Subcommittee with an update on TCK Smut research, and a report on the distribution of the FY 1990 funds.

Answer: The TCK Smut research program is an ongoing, cooperative research effort among the State Agricultural Experiment Stations in the Pacific Northwest. The research projects deal with three major thrusts: basic research on the genetics of the smut fungus, wheat and other grass species; applied work in the breeding and selection of superior smut-resistant germplasm, and survival and infection phenomena with the fungus in the field; and developmental effort to provide effective fungus detection and decontamination tools for wheat in storage and shipment phases. The request for FY 1990 proposals has been sent to the involved State Stations. The Utah proposal has been received, reviewed and is in final processing prior to awarding funds. We await the proposals from the other cooperating Stations. The anticipated distribution of FY 1990 special research grant funds among the five cooperating state stations is as follows: Idaho, $39,807; Montana, $39,807; Oregon, $63,222; Utah, $28,098; and Washington, $63,222.

EXTENSION SERVICE

QUESTIONS SUBMITTED BY SENATOR BURDICK

PESTICIDE IMPACT ASSESSMENT AND INTEGRATED PEST MANAGEMENT

Question: The 1991 budget proposes an increase of $1,019,000 over the 1990 appropriation of $2,561,000 for the Pesticide Impact Assessment program, including evaluations and studies of new pesticides, alternatives available to farmers, and control measures related to endangered species habitat.

At the same time, the 1991 budget would retain funding for the Integrated Pest Management program at $7,164,000 the same level recommended in the 1990 budget.

Dr. Johnsrud, would the new Pesticide Impact Assessment studies you recommend incorporate data available from EPA and FDA? How would Extension collect and use this information so it is readily available to farmers in conjunction with the role of these other agencies?

Answer: In general yes, data primarily available from EPA is essential to Pesticide Impact Assessment studies. State Extension personnel collect pesticide use data as well as data concerning alternative control methods and the attendant yield impacts. The National Pesticide Impact Assessment Program (NAPIAP) uses information from the States in the development of impact assessments. Economic and biologic information assists EPA in determining pesticide use standards. The objective of NAPIAP is to insure appropriate pest control methods are available farmers.

Question: Are current efforts to coordinate the Integrated Pest Management program with the Office of Pest Management at EPA underway? How are these efforts progressing?

Answer: Yes, efforts are progressing. In 1988 and 1990, EPA and USDA-ES sponsored meetings of the American Chemical Society which have included speakers from the Cooperative Extension System as well as EPA.

Also, USDA-ES incorporated programming from EPA into its nation-wide effort in risk communication relating to water quality, food safety, and pesticide use. Personnel from the two agencies share advisory responsibilities to the National Coalition for IPM.

USDA and EPA personnel have presented joint programs at the Institute of Food Technologists, National Food Processors, and other meetings.

Question: Is USDA currently participating with EPA to identify the pesticide uses for which alternatives are most critical? What coordinated approach to alternative and biologically based crop production systems research and technology transfer is underway?

Answer: Yes, the pesticide assessment process determines the economic impact of a pesticide under review for either cancellation or reduced use. Also considered are alternative chemical, biological and management practices to the subject pesticide. This process identifies the need for or the absence of alternatives. The Cooperative Extension System bases its pesticide educational activities on the research results of pest control alternatives conducted by the Cooperative State Research Service and the Agricultural Research Service in USDA.

Question: How do Extension offices integrate the goals of the Impact Assessment and Management Programs? Does Extension provide on-site assistance to farmers under these programs? How do you identify what farmers require assistance?

Answer: The goal of the Pesticide Impact Assessment Program is to insure that appropriate pesticide tools and pest control methods are available to farmers. The IPM program goals are to help farmers use these tools and methods wisely. Alternative pest control methods and the yield impact of reduced pesticide use are important to an Integrated Pest Management (IPM) program. Extension Services nationwide provide training to farmers and IPM scouts so that they can make pest control decisions on-site. County Extension agents identify farmers requiring assistance through public educational meetings, office calls and farm visits and tours.

Question: In what way will services under these programs be integrated with water quality education initiatives?

Answer: The Extension water quality initiative focus is on pollution prevention from nitrogen fertilizers and pesticides. Extension IPM programs focus on integrating effective utilization of fertilizers, pesticides and other off-farm inputs with management practices other than chemical control. IPM programs are critical components in successful water quality programs throughout the U.S. The present emphasis of IPM programs are closely related to the water quality initiative.

Question: Does Extension plan to coordinate its pest control measures relating to endangered species habitat with activities of the Fish and Wildlife Service?

Answer: Coordinated efforts with Fish & Wildlife Service do exist for this program. The Memorandum of Understanding between Extension Service and Fish and Wildlife Service was completed in October 1989. It facilitates cooperation between the two agencies which includes developing, printing and distributing publications, slide tape sets and videotapes on Endangered Species, their habitat, and appropriate protection.

WATER QUALITY

Question: The 1991 budget proposes $10,000,000 to increase Extension Service activities for implementing the President's Water Quality Initiative. Such activities would include demonstration projects, watershed management education, and technical assistance training.

Dr. Johnsrud, the emphasis on improving water quality so apparent in the budget could have a tremendous impact on current farming practices. What role will Extension play in assuring that environmental safety practices are synchronized with high yield production systems?

Answer: Our program will focus on how to incorporate water quality concerns into production systems, rather than how to incorporate crop production concerns into water quality protection systems. We will do this by emphasizing the prudent use of agriculture chemicals, both pesticides and nutrients, and striving for balance between crop yield goals and protection of water quality.

Extension efforts have been altered to reflect this concern and highlight the increased costs associated with applying unnecessary agricultural chemicals. The Minnesota Extension Service reported recently, for example, that "Fifty farmers on 4,942 acres reduced their nitrogen application rate by 49 lbs. per acre by following county Extension Office recommendations. That's 240,303 lbs. of nitrogen that has no chance of getting into the groundwater."

Question: Over what period of years does Extension plan to be conducting the demonstration and technical assistance projects outlines in the budget? What is your estimated cost of these projects over the long term?

Answer: The July 1989 USDA Water Quality Program Plan outlines a five-year program of research, education, technical and financial assistance, and data collection and analysis for ten USDA agencies. The education, technical and financial assistance component of the plan involves the coordinated input of the Extension Service (ES), the Soil Conservation Service (SCS), the Agricultural Stabilization and Conservation Service, and the Economic Research Service.

Under the USDA plan, these agencies will carry out 24 demonstration projects, as well as intensified programs in 275 nonpoint source hydrologic units. The ES components of these projects are estimated to cost a total of $123 million through 1996. In addition, regional projects are planned that will provide education and technical assistance in several multi-State areas with critical water quality problems. The estimated ES cost for these projects is $60 million. We anticipate that it will cost the ES an estimated $12.5 million to support the Midwest Initiative and the Data Base Initiative. Finally, improving program support capabilities, in conjunction with SCS, will cost an estimated $37.5 million.

These estimates, totaling 233 million, reflect our current plans and are subject to change as annual budgets are developed.

Question: How will agriculture's efforts to improve water quality be coordinated with other point sources, such as the manufacturing, transportation, or waste management sectors or our economy? Will Extension play a role in any coordination efforts?

Answer: While these particular issues have not been formally addressed, we are quite confident that the USDA Water Quality Work Group, chaired by Dr. Harry Mussman, Deputy Assistant Secretary for Science and Education, will continue to work with the EPA in coordinating such programs.

These issues are not central to the USDA's mission, but it is essential to maintain balance among such programs, to assure that while agriculture assumes responsibility for its impacts on Water Quality, it does not divert attention from these other serious concerns associated with environmental quality.

The Extension Service is represented on the Water Quality Work Group, and would certainly participate in such coordinating efforts.

1890's COLLEGES AND TUSKEGEE UNIVERSITY

Question: The 1991 budget calls for increasing assistance to the 1890's Colleges and Tuskegee University by $1,256,000 for academic programs and by $71,000 for facilities. What is the status of the progress toward bringing the curricula of the 1890's Colleges and Tuskegee University up to par with the university land grant institutions? Where might more improvements be made?

Answer: In FY 1990, the Department is initiating the 1890 Institution Capacity Building Grants Program. The objectives of this program are to: advance university teaching and research capabilities; foster partnerships with industry; foster partnerships with other institutions; and, stimulate non-Federal support for higher education. This program provides $5.4 million for teaching and research capacity building. Teaching support is targeted specifically for curricula design and materials development; instruction delivery systems; student experiential learning; faculty preparation and enhancement; student recruitment and retention; scientific instrumentation. Research support must address a high-priority research initiative in an area where there is a shortage of capabilities and/or in which it is feasible for the applicant to develop a program recognized for its excellence. The program is also designed to promote the development of linkages between individual 1890 institutions and the various USDA agencies to strengthen these institutions. CSRS program managers anticipate making the first awards under this new program by late summer 1990.

Initial indications are that 1890 Institutions are attracting matching funds for the 1990 Capacity Building Grants Program within CSRS. Based on that favorable information, the CSRS budget proposes $11 million for 1991 with a requirement for matching from non-Federal sources.

Question: What efforts is the Extension Service making in encouraging minority enrollment in agricultural science and economics programs?

Answer: Extension Service is cognizant of the projected increases in the nation's minority population and the projected shortage of technically trained workers by the year 2010. Hence, the future agricultural needs in the area of manpower utilization makes it necessary for us to mobilize and work towards increasing the number of minorities that participate in the mainstream of agricultural sciences and related disciplines. The Extension system has 5.5 million youth, between the ages of 9 to 19, enrolled in 4-H Youth Programs. Of this total 23 percent are minority youth. In carrying out its overall mission with the 4-H Youth, Extension Service focuses on, among other educational activities, assisting these youth to become effective participants in the economic system and in preparation for job opportunities. Through the 4-H youth programs we have assisted and continue to assist youth in acquiring knowledge of agricultural scientific principles thereby providing a meaningful experience through which they can explore career opportunities and an interest in obtaining a degree in the food and agricultural sciences. Many minority 4-H Youth, through their 4-H work, have received scholarships to obtain a degree in the agricultural sciences and related disciplines. Our extensive outreach effort with the nations' youth is contributing to the enrollment of minorities in the food and agricultural sciences and economics.

Question: What efforts is the Extension Service making to help recruit minorities for future positions with USDA?

Answer: Extension Service is implementing a plan to assist in this ongoing effort. The plan is tailored to special efforts in outreach recruiting of minority group members. These efforts would include: maintaining regular recruitment contact with minority groups, schools, colleges, and organizations; advising administrative heads, deans and faculty of the 1890 and 1862 land-grant colleges and universities within each respective State, of those conditions which would increase the employment opportunity of students; utilizing recruitment leaflets, booklets and brochures designed to attract minority group and women candidates; utilizing search committees for SES and key management positions to ensure that recruitment activities are designed to reach, attract and employ candidates from minority group members; women and minority employees served on these committees; and advising State Extension Directors, Deans, Extension Administrators and faculty members of the 1862 and 1890 land-grant universities within each respective State, to make employment opportunities available in ES-USDA.

Question: At what cost, and over what period of years, will the 1890's Colleges and Tuskegee University facilities and laboratories attain "state of the art" status?

Answer: The 1890 Colleges and Tuskegee University have completed a program which substantially raised the level and quality of research facilities at these institutions. Extension's facilities program at these locations has an authorization of five years and is in the third year of funding. The facilities planned by these schools should greatly enhance their capabilities to develop and deliver extension programs within the next few years.

AQUACULTURE

Question: How has the Extension Service responded to interest in requests for the initiation of aquaculture education curricula development and training programs? Would such programs be feasible under the Extension Service's current authorities?

Answer: Extension Services has responded at the Federal level to aquaculture needs by having approximately 1/2 FTE devoted to national programs leadership for aquaculture. In 1985, a coordinated effort between Extension Service and Cooperative State Research Service placed one FTE for aquaculture in both agencies.

At the State level, Cooperative Extension Services have responded to the demands for educational programs and training in aquaculture by employing some 66 specialists devoted to aquaculture programs in 30 states. These programs are coordinated with the respective Land Grant Institution and with appropriate Regional Aquaculture Centers.

In those State Cooperative Extension Services presently with aquaculture specialist positions, these programs provide educational information, continuing education and training to landowners, aquaculture producers, other professional aquaculturists, policy makers, lending institutions, processors and others as dictated by need. Such activities and programs are authorized under both Smith Lever Act and the Aquaculture provisions in the 1985 Food Security Act.

RETIREMENT COSTS

Question: What is the estimated cost of the Federal Employee Retirement Program for Extension Service personnel and associates in 1991? Is this estimate included in the budget?

Answer: The Federal Employee Retirement Program for Extension Service personnel consists of two parts, the Civil Service Retirement System (CSRS), and the Federal Employees Retirement System (FERS). The estimated FY 1991 costs for CSRS is $28.4 million and for FERS is $10 million. The amounts included in the budget are $15.3 million for CSRS and $4 million for FERS.

MAIL COSTS

Question: What is the cost of federal government mail privileges to state, county, and local extension offices? Where is this amount included in the Extension budget?

Answer: The cost of the federal government mail privileges to state, county and local extension offices will be approximately $15.5 million in FY 1990. This amount is included in the Extension Service in the Smith-Lever formula funds and is distributed to the States annually.

OPERATING COST INCREASE

Question: How much of the $555,000 increase proposed for operating expenses in the federal administration and coordination account is recommended for activities in Washington? On what activities will these funds be spent?

Answer: The entire $550,000 increase is recommended for activities in ES-USDA. The funds will be utilized for critically needed additional resources for the Federal staff to effectively provide national leadership to the Cooperative Extension System. ES-USDA serves as a catalyst in mobilizing and coordinating timely and effective educational expertise and assistance at the national level. These additional funds will permit the Extension Service to better serve as a coordinator and as a working partner with other Federal, State and local agencies and organizations. This increase would restore part of the protracted decline in resources for Federal administration that ES-USDA has experienced over the last several years.

INTEGRATED RESOURCE MANAGEMENT

Question: Has the Extension Service been involved in supporting Integrated Resource Management programs?

Answer: Yes, the Extension Service has supported the development of the Integrated Resource Management (IRM) concept. USDA-Extension provided funds in FY'89 to support a National Integrated Resource Management Leadership Conference, development of a computerized research reports database, and an analysis of the suitability of farm record keeping systems to support the IRM concept. Currently, there are 8 active State IRM programs being supported by State Extension Services. Several new IRM programs are being developed and implemented, including programs in North Dakota, Florida, and Minnesota.

Question: What is the potential for Extension Service to expand staff and resources for IRM programs?

Answer: A significant percentage of staff and resources in the Extension System are being focused on our National Initiatives. National Initiative efforts represent a critical component of successful IRM programs. The National Initiatives relating to Water Quality, Improving Nutrition Diet and Health, Competitiveness of American Agriculture, and Revitalizing Rural America can contribute valuable information to ensure IRM team efforts are successful.

Question: If efforts to include provisions of IRM in the Research, Extension and Teaching Title of the 1990 farm bill are successful, will this strengthen the mission of Extension relative to IRM projects?

Answer: Inclusion of provisions of IRM in the Research, Extension and Teaching Title of the 1990 farm bill would send a clear signal that the principles of IRM merit significant consideration by the research and Extension community.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

HOME SEWING PROJECT

Question: Last year, Congress included funding to continue a very successful Mississippi Extension project, entitled "Sewing As A Business," which had over 120 attendees and over 500 applications to attend the project. It is my understanding that this project significantly increased the earning levels for these attendees and generated a private sector support for contributions by the Home Sewing industry. By direction of the Committee, this project was to be expanded to Alabama and South Carolina. Have these funds been disbursed? If no, why not? What is the Department's position on this project?

Answer: In FY 1990, the Mississippi Cooperative Extension Service has not requested any funds for this project. ES-USDA has invested over $50,000 in this program the last several years. The project is ongoing and continues to be successful utilizing in-State resources. We are meeting with the Extension Services in Alabama and South Carolina to determine their funding needs for the expansion of this project. As of now, no funds have been distributed to these States pending those determinations.

ES-USDA is supportive of this project. It is a fine example of a successful, cooperative educational program between extension and the private sector.

Question: What efforts has the Extension Service made to maintain clothing and textile specialists and their programs throughout the country? To the extent possible, please provide for the record a list of the clothing and textile projects.

Answer: The Cooperative Extension System includes one National Program Leader and 48 State Textile and Clothing Specialists. This staff is cognizant of the importance of the textile industry to our national economy, to our relations with third world countries, and that consumers need increased understanding of the importance of textile fibers and products in foreign trade.

Extension Service Programs in the area of textiles and clothing relate to the development of more effective individuals by providing knowledge in the areas of entrepreneurship, increased home production, the evaluation and formulation of public policy through work on voluntary standards, work with international policy making groups, and through seeking solutions via the study and dissemination of research. Programs initiated or carried out with other agencies and/or organizations include: (1) the development of a research project with the American Society Testing Materials (ASTM) to collect national data to be used in establishing sizing standards for women 55 or more years of age; (2) an appointment to the National Advisory Committee composed of recognized leaders from industry, government and citizens groups to investigate and recommend solutions to problems in the textile industry such as manufacturing and labeling of apparel to decrease the incidents of burns and deaths relating to apparel; and (3) serving as a member of the newly formed International Fabric Care.

A sample taken from accomplishment reports showed 20 States, programming in Textiles and Clothing, provided information to 163,000 participants.

RURAL HEALTH AND SAFETY EDUCATION

Question: Earlier this week, I introduced S. 2188 a bill which authorizes grants for the Extension Service to expand its activities in the areas of rural health and safety education. Dr. Johnsrud, are you familiar with this legislation, and if so, would you care to comment on it?

Answer: I understand that the Rural Health and Safety Education Act authorizes the State Cooperative Extension Services to expand their health and safety education program.

I would agree that there is potential for these types of increased efforts within the Cooperative Extension System (CES).

CROP SIMULATION

Question: Last year, $500,000 was included in the Extension budget to provide technical assistance and support for crop simulation technology developed by the crop science laboratory of the ARS. Are any funds included in the budget for fiscal year 1991?

Answer: No. The President's FY 1991 Budget Proposals do not include earmarked funding for the crop simulation project in Mississippi.

QUESTIONS SUBMITTED BY SENATOR SPECTER

RURAL DEVELOPMENT

Question: In January, The Economic Policy Council Working Group on Rural Development released an excellent report and series of recommendations. What do you see as the timetable for the "Plan of Action" and the source of funds necessary for the implementation?

Answer: The implementation plan and resource analysis is in the process of being prepared. We anticipate the initial meeting of the Advisory Group on Rural Development will be held in about three months.

TECHNOLOGY TRANSFER

Question: The main barrier to the adoption of more sophisticated technology in agriculture is the technology transfer process. Sophisticated technologies require higher levels of integrated interpreted information which, in turn, require substantial expertise on the part of the user. What is USDA doing to underwrite technology transfer activities and to promote the creation of innovative technology methods?

Answer: The Science and Education agencies of USDA are conducting a number of activities in this area. The Extension Service is taking leadership with its land grant university partners to create more innovative technology transfer methods through establishment of two national task forces. The Futuristic Applications of Communication Technologies Task Force and The Commercial Agriculture Task Force.

These groups are both working on different dimensions of the issues involved. The Extension Service, the Agricultural Research Service, the National Agricultural Library, and the Cooperative State Research Service are working together to better understand effective technology transfer and to develop improved criteria and standards for underwriting future development work in this area. The University of Nebraska-Lincoln is furthering this effort through conduct of research in the area of information management and decision support systems that will lead to recommendations to the four agencies and the land grant community.

The Extension Service and the National Agricultural Library are releasing this month the first national CD-ROM sampler containing 10,000 publications from the Cooperative Extension System and the U.S. Department of Agriculture with easy to use search software. This technology will be tested in more than 100 locations across the U.S.

To bring more coherence and strategic planning to future efforts in this area the Extension Service has negotiated agreements with Oregon State University and Purdue to assist in developing standards and a long range plan, including nationwide networking of agricultural scientists and extension specialist and agents.

PESTICIDE USAGE INFORMATION

Question: The current lack of comprehensive pesticide usage information has recently left producers vulnerable to environmental concerns and regulatory actions which restrict the availability of crop protection materials and jeopardize the orderly marketing of crops. Proposals to create a pesticide usage information data base in the present budget are unlikely to have any short term effect on this problem. In the meantime, given the jeopardy in which apple growers find themselves, for example, what does USDA intend to do to ameliorate this situation?

Answer: As the Extension Service collects statewide pesticide use, alternatives, and yield impact on major crops, this data will be entered into a national data base. Results on pesticide impact assessments will also become a part of the national data base. Information on pesticides will be available to the producer as soon as possible.

QUESTIONS SUBMITTED BY SENATOR GRASSLEY

EFNEP

Question: What type of reaction does the Extension Service anticipate from the states should the matching requirement for EFNEP be implemented?

Answer: The reaction will vary. Some States have experienced severe budgetary cutbacks from State and local sources for Cooperative Extension programming, and thus, may not be in a position to allocate new funding resources to EFNEP, and the program may be operated at greatly reduced levels.

Other States have developed strong liaisons with outside organizations, and have begun to enter into cooperative agreements, including the transfer of money to EFNEP to support various aspects of the program. We would anticipate that these States would be in a stronger position to meet the match requirement and maintain current programs.

RURAL REVITALIZATION

Question: What role does the Extension Service have in the Administration's FY 1991 budget request in the area of rural revitalization and sustainable agriculture?

Answer: The Extension Service/USDA continues to provide rural revitalization assistance to the Under Secretary for Small Community and Rural Development for the development and implementation of the Economic Policy Council's Working Group, Rural Development initiative. The USDA is looking to the Cooperative Extension System to provide training and education assistance in the implementation of the rural development initiative. Both ES/USDA and our State Cooperative Extension Service partners are attempting to refocus resources in support of the Administration's rural revitalization initiative.

Additionally, ES-USDA continues its education and technology transfer programs in sustainable agriculture through coordinated activities with other USDA agencies.

GOING GLOBAL

Question: Please explain the Going Global program. When was this effort started? How is it being received in the States? Is this program adequately funded?

Answer: Going Global is a concept grounded in the belief that the future competitiveness of agriculture and revitalizing rural America are inseparable to the ability of farmers and rural businesses understanding and effectively participating in global markets.

Going Global evolved from the 1988 issue identification processes for Extension's National Initiative on Competitiveness of American Agriculture and Rural Revitalization.

Farmer's and rural business' understanding and effectively participating in global markets was a critical issue identified for both Initiatives.

The CES is actively facilitating a network of public and private organizations interested in pooling information, resources and talent in Going Global. We are experiencing exceptional cooperation from the various public and private agencies that have information services and other sources of assistance essential for rural America to Go Global. We are also being strongly encouraged by our clientele in this effort. Going Global pilot projects are currently being planned in Washington, California, Nebraska, Iowa, Missouri, Minnesota, Texas, Florida, Kentucky, West Virginia, Virginia, and New York.

ES/USDA and our State Cooperative Extension Service partners are attempting to redirect and refocus resources to implement Going Global efforts.

QUESTIONS SUBMITTED BY SENATOR NICKLES

RURAL DEVELOPMENT

Question: $433,000 was appropriated to the ES in fiscal year 1990 for an for on-going program which provides several services to assist Oklahoma businesses including financial packaging, marketing assistance, incubators, and new product and process evaluation. Please comment on this program.

Answer: The Rural Enterprises Project in Oklahoma works closely with the Cooperative Extension Service. Extension works to identify priority concerns of Oklahoma businesses and local governments in the technology field. These issues form the basis of targets of opportunities for Rural Enterprises technology searches and for entreprenuers in Oklahoma.

Rural Enterprises employs a variety of tools and undertakes a number of activities that are designed to promote new product opportunities, business start-up, and job creation. These objectives require the operation of specific programs that fit together to stimulate the innovation process.

TECHNOLOGY TRANSFER

Question: $333,000 was appropriated to the ES in fiscal year 1990 for this project between the Lane, Oklahoma, ARS Center and Mississippi. Please comment on this program.

Answer: The information follows:

Oklahoma Cooperative Extension Service assists Rural Enterprises in promoting enterprenuership for rural areas by:

- o Working with rural business to develop a list of high priority technology related needs that form the basis of a work plan for Rural Enterprises.
- o The technology needs list is a critical first step in identifying a market to which technology can be related.
- o The market can consist of industry needs for manufacturing technology, process improvements, environmental compliance technology or local government needs in the public works area and others.
- o Industry and government thus become the market for new technology and innovation opportunities are identified for entreprenuers.

Mississippi Cooperative Extension technology transfer efforts include:

- o Extending the technologies of computerized crop modeling and expert systems to select growers through the application of the ARS developed cotton modeling program GOSSYM COMAX.
- o Identifying, developing, producing, and evaluating a minimum of two high priority, high impact educational programs utilizing satellite videoconferencing technologies.
- o Demonstrating the application of CD-ROM technology in selected educational program delivery systems.
- o Continuing maintenance level programs efforts of educational activities currently underway with small town and rural county governments.

SUBCOMMITTEE RECESS

Senator **Burdick**. This concludes today's hearing. Thank you for your testimony.

Our next hearing will be held on Tuesday, March 6, in this same room at 10 a.m. The subcommittee will receive testimony from the Food and Nutrition Service and Human Nutrition Information Service.

The subcommittee stands in recess.

[Whereupon, at 2:19 p.m., Friday, March 2, the subcommittee was recessed, to reconvene at 10 a.m., Tuesday, March 6.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1991

TUESDAY, MARCH 6, 1990

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:04 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Quentin N. Burdick (chairman) presiding.

Present: Senators Burdick, Cochran, and Kasten.

DEPARTMENT OF AGRICULTURE

STATEMENT OF CATHERINE BERTINI, ASSISTANT SECRETARY FOR FOOD AND CONSUMER SERVICES

ACCOMPANIED BY ROBERT E. SHERMAN, BUDGET OFFICER

FOOD AND NUTRITION SERVICE

STATEMENT OF BETTY JO NELSEN, ADMINISTRATOR

ACCOMPANIED BY:
- GEORGE BRALEY, ACTING ASSOCIATE ADMINISTRATOR
- STANLEY GARNETT, ACTING DEPUTY ADMINISTRATOR, SPECIAL NUTRITION PROGRAMS
- BONNY O'NEIL, ACTING DEPUTY ADMINISTRATOR, FOOD STAMP PROGRAM
- JERRY BOLING, BUDGET OFFICER

HUMAN NUTRITION INFORMATION SERVICE

STATEMENT OF DR. JAMES T. HEIMBACH, ACTING ADMINISTRATOR

ACCOMPANIED BY:
- ROBERT L. RIZEK, DIRECTOR, NUTRITION MONITORING DIVISION
- SUSAN O. WELSH, DIRECTOR, NUTRITION EDUCATION DIVISION

INTRODUCTION OF WITNESSES

Senator BURDICK. Good morning, ladies and gentlemen. Today we continue our hearings on the fiscal year 1991 budget for Agriculture, Rural Development and Related Agencies. Today we will review the budget for the Food and Nutrition Service and the Human Nutrition Information Service.

Our witnesses are: Catherine Bertini, Assistant Secretary for Food and Consumer Services; Betty Jo Nelsen, Administrator, Food and Nutrition Service; James T. Heimbach, Acting Administrator, Human Nutrition Information Service; and Robert E. Sherman, Budget Officer for the USDA. Welcome to all of you.

As a broad overview in comparison to 1990 funding, I note that the budget for FNS has increased by almost $1 billion with a total budget of $23.9 billion. Of that increase, $707 million is for the Food Stamp Program, and another $218 million is for increases in the child nutrition programs. The budget for HNIS is $10.7 million.

We have statements from both of the agencies as well as the Assistant Secretary. They will be made part of the record in full.

Ms. Bertini, I will ask you to make your oral statement, after which we will entertain questions from the subcommittee for each of the agencies.

STATEMENT OF CATHERINE BERTINI

Ms. Bertini. Thank you. I am Catherine Bertini, Assistant Secretary of Agriculture for Food and Consumer Services. With me today as you mentioned and welcomed are Betty Jo Nelsen, who is Administrator of the Food Nutrition Service, and Dr. James Heimbach, who is Acting Administrator of the Human Nutrition Information Service.

In addition, we have joining us George Braley, who is the Acting Associate Administrator of the Food and Nutrition Service; Robert Sherman, as you mentioned, who is the USDA Budget Officer; and Jerry Boling, who is the Budget Officer for the Food and Nutrition Service.

We appreciate the opportunity to appear before you, Mr. Chairman, to present the President's budget proposal for fiscal year 1991. These two agencies together in fiscal year 1991 are requesting an appropriation of $23.9 billion. As you mentioned, the Human Nutrition Information Service is requesting $10.7 million, and the Food and Nutrition Service is requesting the balance.

HUMAN NUTRITION INFORMATION SERVICE BUDGET REQUEST

The Human Nutrition Information Service contributes important research on the food Americans buy and eat, the level of nutrition we attain, how we make food choices, and the safety of our food supply. The budget request continues the current level of research and promotion of dietary guidance and includes an initiative to strengthen the Government's ability to respond to food safety concerns and to protect public health.

The Human Nutrition Information Service budget request for fiscal year 1991 is for $10.7 million, an increase of $1.7 million over the 1990 current estimate of $9 million. The increase would provide $1 million for the Agency's participation in the $25 million USDA food safety data initiative and provide $500,000 for a new nutrition education initiative to increase awareness of the 1990 dietary guidelines for Americans.

In addition, the budget request would support a small increase in operating costs to support the ongoing activities of nutrition monitoring and education.

FOOD AND NUTRITION SERVICE BUDGET REQUEST

The Food and Nutrition Service also helps people, in this case low-income people, to have an adequate and nutritious diet. The Agency also serves special target groups such as: pregnant and postpartum women, infants, schoolchildren, native Americans, and the elderly.

The fiscal year 1991 budget for the Food and Nutrition Service requests an appropriation of $23.9 billion. This budget request represents our firm commitment to fund benefits for low-income Americans and make modest recommendations to improve program targeting in the child nutrition programs.

Adequate funding for a growing Food Stamp Program is critical for us and for this committee. Uncertainty about continued food stamp funding is not good for anyone. It puts needy Americans at risk of having to do without food stamp benefits so vital to their well-being and makes the job of local, State, and Federal managers more difficult as we approach the brink of having to reduce benefits.

In recognition of this uncertainty and the need to protect benefits for low-income Americans, the President has requested statutory language appropriating such sums as may be necessary to fully fund benefit payments to individuals for fiscal years 1990 and 1991. Our current estimates indicate that the amount required to meet State food stamp needs through the end of fiscal year 1990 could range from $375 to $510 million more than the $14.8 billion available to the Food Stamp Program.

The Food Stamp Program requires reauthorization for fiscal year 1991, and we will be working with the authorizing committees to revise and strengthen the current program to ensure that benefits are available for all eligible people and that food stamps intended for the purchase of food are not diverted to other purposes.

These programs, Mr. Chairman, plus appropriations for the rest of the 13 food programs at the Food and Nutrition Service and our administrative budget is what we are presenting to you today and for which we request your consideration.

PREPARED STATEMENTS

I would be happy to answer any questions that you have, Mr. Chairman, and our panel would be glad to answer questions as well. Thank you for the opportunity to be here.

[The statements follow:]

STATEMENT OF CATHERINE BERTINI

Mr. Chairman, I am Catherine Bertini. I am Assistant Secretary of Agriculture for Food and Consumer Services.

With me today are Betty Jo Nelsen, Administrator of the Food and Nutrition Service and Dr. James Heimbach, Acting Administrator of the Human Nutrition Information Service.

We appreciate this opportunity to appear before you to present the President's budget proposals for fiscal year 1991.

These two agencies together in Fiscal Year 1991 are requesting an appropriation of $23.9 billion. The Human Nutrition Information Service is requesting $10.7 million and the Food and Nutrition Service is requesting the balance.

HUMAN NUTRITION INFORMATION SERVICE BUDGET REQUEST

The Human Nutrition Information Service contributes important research on the food Americans buy and eat, the level of nutrition we attain, how we make food choices and the safety of our food supply. The Human Nutrition Information Service is the lead Agency in the Federal Government for providing dietary guidance to the general public. This budget request continues the current level of research and promotion of dietary guidance, and includes an initiative to strengthen the Government's ability to respond to food safety concerns and to protect public health.

The Human Nutrition Information Service budget request for Fiscal Year 1991 is for $10.7 million, an increase of $1.7 million over the 1990 current estimate of $9.0 million. The increase requested would:

Food Safety Data Initiative.—Provide $1.0 million for the Agency's participation in the $25 million USDA Food Safety Data Initiative. As one of the four lead agencies, the Human Nutrition Information Service will establish a Residue Exposure Assessment System which will provide data on the potential exposure of individuals to pesticide residues. The system will link data on pesticide residues found in agricultural products, as determined in a State-based monitoring program administered by the Agricultural Marketing Service, with data on the intake of those products by U.S. population and population subgroups, as determined from the Human Nutrition Information Service's Nationwide Food Consumption Surveys.

Nutrition Education Initiative.—Provide $0.5 million for a new nutrition education initiative to increase awareness of the 1990 Dietary Guidelines for Americans. In addition, special efforts will be made to get appropriate dietary guidance to hard-to-reach populations who may be at nutritional risk, such as low literacy groups, the elderly, teenagers, and the poor. In addition, the budget request would support a small increase in operating costs to support the on-going activities of nutrition monitoring and education.

FOOD AND NUTRITION SERVICE BUDGET REQUEST

The Food and Nutrition Service helps low-income people to have an adequate and nutritious diet. The Agency also serves special target groups such as pregnant and post-partum women, infants, school children, native Americans and the elderly.

The Fiscal Year 1991 Budget for the Food and Nutrition Service requests an appropriation of $23.9 billion. This budget request represents our firm commitment to fund benefits for low-income Americans and make modest recommendations to improve program targeting in the Child Nutrition Programs. It is a realistic budget reflecting an expansion of program payments including allowances for inflation as required by law.

FOOD STAMP PROGRAM

Adequate funding for a growing Food Stamp Program is a critical issue for us and for this committee. Frankly, Mr. Chairman, participation in recent months has increased faster than we would expect based on historical experience. The program has grown so large that even relatively small percentage changes in participation can have substantial consequences, compounding the difficulty of making precise forecasts. Uncertainty about continued food stamp funding is not good for anyone. It puts needy Americans at risk of having to do without food stamp benefits so vital to their well-being and makes the job of local, State and Federal managers more difficult as we approach the brink of having to reduce benefits.

In recognition of this uncertainty and the need to protect benefits for low-income Americans, the President has requested statutory language appropriating such sums as may be necessary to fully fund benefit payments to individuals for Fiscal Years 1990 and 1991. We are also seeking authority in our farm bill proposal to appropriate funds on a calendar year rather than a fiscal year basis. This would enable the Congress to continue funding for the program even in years when appropriations actions cannot be completed before the start of the Federal fiscal year. This approach is flexible enough to ensure that benefits to needy Americans continue to be available without interruption.

Our current estimates indicate that the amount required to meet State food stamp needs through the end of Fiscal Year 1990 could range from $375 million to $510 million more than the $14.8 billion available to the Food Stamp Program. Even the low end of this estimate would require appropriations above the level authorized by Section 18 of the Food Stamp Act of 1977, as amended.

Our Current Law Budget Request for Fiscal Year 1991 is $16.0 billion compared to the appropriation of $14.8 billion for the current fiscal year. I would like to call the

Committee's attention to the major changes that have occurred to the various cost estimates contributing to a rise of nearly $3 billion over a 2-year period.

In 1989 and 1990: Average participation could reach 19.6 million instead of continuing to decline as was projected last year at this time. Food costs, measured by the Thrifty Food Plan, serve as a basis for computation of food stamp allotments. This cost measure had risen to $325 for a family of four in June of 1989. This base was increased by 2.05 percent, as required by the Hunger Prevention Act of 1988, establishing a benefit of $331 beginning last October. For Fiscal Year 1991, the Budget projects an increase in the maximum benefit to $344 which includes an increase of 3 percent above the Thrifty Food Plan as required by law. Other program costs including State Administrative Expenses, employment and training programs and printing and shipping costs for food coupons have all added to the rising cost of the program due to inflation.

The Food Stamp Program requires reauthorization for Fiscal Year 1991, and we will be working with the authorizing committees to revise and strengthen the current program to assure that benefits are available for all eligible people and that food stamps, intended for the purchase of food, are not diverted to other purposes. In addition, two legislative proposals appear in the budget and are intended to: 1) ensure that the opportunity for single parent families to receive child support payments from absent parents is maximized; and 2) assure that costs are fairly and evenly allocated in our Employment and Training Program.

The first proposal is to ensure that single parent households attempt to obtain child support from absent parents through the Office of Child Support Enforcement. This proposal is estimated to increase program participants' income by $165 million and reduce Food Stamp Program costs by $50 million in the first year of implementation.

The second of these proposals will cap the currently open-ended Government support for administrative costs of employment and training above the basic grant at an average of $12.50 per person per month. This will avoid the potential replacement of current State-funded activities by Federal employment and training funds. This proposal will enable us to support program costs and reduce administrative expenses by $20 million in Fiscal Year 1991.

PUERTO RICO

The President's Budget proposes to replace this grant with a fiscal assistance program for Puerto Rico under the Social Security Act. This proposal would consolidate the administration of public assistance programs under the Department of Health and Human Services.

CHILD NUTRITION PROGRAMS

An appropriation of $5.1 billion is requested, under current law, for the Child Nutrition Programs in 1991. This is an increase of over $200 million above the appropriation for Fiscal Year 1990. These increases, together with carry-over funds, will cover the costs of our best estimate of program growth and increases in the per-meal rates of assistance required by the basic legislation.

Legislation will be proposed to treat children participating in the family day care program the same as children participating in day care centers by requiring an income test to determine eligibility for subsidized meals. Currently, an income test applies only to families of the children enrolled in day care centers. This proposal will save an estimated $281.2 million.

We are also proposing legislation to increase the subsidy in the School Lunch Program for children from families near the poverty level and to eliminate Federal support for meals served to children from families with incomes of more than 350 percent of poverty or about $42,000 per year for a family of four. These two School Lunch proposals would reduce the projected program costs by $181.1 million in Fiscal Year 1991.

Included in the budget are the appropriations required by the Child Nutrition and WIC Amendments of 1989. These include increases in the Summer Food Service Program to reimburse meals served by non-profit private sponsors and 15 staff years for monitoring to provide management oversight of the program.

CHILD NUTRITION FEDERAL REVIEW INITIATIVE

We are grateful for the support of this committee for the Federal Review initiative designed to identify and assist those schools with problems managing their school lunch programs to file accurate claims for Federal support. This effort is estimated to cost $5.6 million in 1991 and will enable the Department to effectively implement a unified review system. We expect recoveries and cost avoidance in 1990 to be well in excess of the $3.6 million appropriated. We believe that follow-up by Federal and State employees, working together with the local districts, is beginning to eliminate the problems which led to overpayments found by the Office of the Inspector General and this Agency in past years.

SPECIAL MILK PROGRAM

The budget requests $19.3 million, which together with a carryover of $2.9 million will fund free and paid milk for schools not participating in the School Lunch Program. This program subsidizes over 200 million half pints of milk each year.

SPECIAL SUPPLEMENTAL FOOD PROGRAM (WIC)

We are very pleased with the success and popularity of the WIC Program. Through a combination of increased appropriations and significant innovation by States in the procurement of infant formula, the WIC Program today serves over 4.4 million participants and will reach over 4.7 million by the end of this fiscal year. This represents an increase of 600,000 participants compared to 1989 levels. Because of this expansion we now estimate that virtually all eligible infants up to 12 months of age, and 90 percent of all eligible pregnant women are served by the program nationwide. The budget provides $2.2 billion for the WIC Program in Fiscal Year 1991. This is an increase of $89 million above the appropriation for the current fiscal year which, together with the savings realized from cost containment initiatives, will allow continued expansion of the current level of services provided to women, infants and children.

FOOD DONATIONS PROGRAMS FOR SELECTED GROUPS

We are proposing to consolidate several of the programs supported by USDA purchased and donated commodities under a single appropriation title. Therefore, in addition to supporting the current levels of the Food Distribution Program for Indian Reservations and the Nutrition Program for the Elderly and donations to soup kitchens, we are proposing to add the current law appropriation for the Commodity Supplemental Food Program under this heading. Consolidation of these accounts will streamline our appropriation structure and improve the ability of the Department to respond to offsetting changes in participation and costs.

For the Commodity Supplemental Food Program, the budget requests $62.9 million. That appropriation, plus Commodity Credit Corporation donations of dairy products, will meet the program's needs. This funding level will support the current caseload allocation of 165,000 women infants and children and 107,000 elderly.

For the Food Distribution Program on Indian Reservations, the funds requested will serve the current participation of 143,000. The total amount needed is $74.8 million.

The Nutrition Program for the Elderly is projected to continue its growth and serve approximately 264 million meals at the statutory rate of 56.76 cents per meal. We estimate an additional 11 million meals will be served to seniors at congregate feeding sites. The total amount requested is $149.9 million.

The commodity program for soup kitchens is requested at the authorized level of $32 million to provide support for meeting the food needs of homeless people whose participation in our traditional food assistance programs has been relatively low.

TEMPORARY EMERGENCY FOOD ASSISTANCE PROGRAM

This program has proven to be capable of reaching many in need who do not participate in the more structured food assistance programs, as well as provide additional assistance to those who do. For this reason, we are proposing that $50 million in administrative support for State and local administrative agencies and $120 million in direct food assistance be appropriated. We are proposing language whereby the Department will first consider purchasing acceptable commodities in the inventories of the Commodity Credit Corporation (CCC) for distribution.

FOOD PROGRAM ADMINISTRATION

For Fiscal Year 1991, we are requesting an appropriation of $96.8 million for the administrative expenses of the Agency. This is $5 million over the 1990 level and will allow the Food and Nutrition Service to fund current staff-year ceilings and meet demands to focus Agency efforts on improving oversight and monitoring operations.

Thank you Mr. Chairman. I would be happy to answer any questions you, or other members of the committee may have.

STATEMENT OF BETTY JO NELSEN

Thank you Mr. Chairman. I am Betty Jo Nelsen, Administrator of the Food and Nutrition Service. I was sworn in by Secretary Yeutter on January 16. In keeping with your policies Mr. Chairman, I am submitting my biographical sketch for the record. I would like to introduce the staff members with me, all of whom have represented the Agency in the past, including George Braley, Acting Associate Administrator and William Boling, the Agency Budget Officer.

As the new Administrator of the Food and Nutrition Service, I bring a background as a State legislator, a teacher and a parent. My commitment is to work to improve the services to our clients by working with and being sensitive to the concerns of our partners, the State and local agencies, who implement our programs. The budget we have submitted is consistent with that pledge and cognizant of the limits on Federal resources.

The Fiscal Year 1991 Budget for the Food and Nutrition Service requests an appropriation of $23.9 billion. This budget request represents our firm commitment to fund benefits for low-income Americans and make modest recommendations to improve program targeting in the Child Nutrition Programs. It is a realistic budget reflecting an expansion of program payments including allowances for inflation as required by law.

By way of background I want to mention that the amounts appropriated by this committee for fiscal year 1990 have been reduced by $6.3 million as required by the sequestration order. Even with the austere budget situation, the Congress exempted most recipient and administrative payments in the Food and Nutrition Service from the impacts of the Gramm-Rudman-Hollings legislation.

FOOD STAMP PROGRAM

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FOOD PROGRAM ADMINISTRATION

For Fiscal Year 1991, we are requesting an appropriation of $96.8 million for the administrative expenses of the Agency. This is $5 million over the 1990 level and will allow the Food and Nutrition Service to fund current staff-year ceilings and meet demands to focus Agency efforts on improving oversight and monitoring operations. Specifically, the increase will fund 50 percent of the pay raise projected for Fiscal Year 1991 and the Agency will absorb the other 50 percent. The funds requested also will cover the costs of inflation and provide funds for ongoing and new initiatives, such as: updates to benefit delivery systems for Food Stamps, primarily Electronic Benefits Transfers; installing and maintaining a new integrated financial management system; continuing critical automation activities, including connecting our computers with States' computers; initiating the Unified Federal Review System for all Child Nutrition Programs including the WIC Program; and increasing monitoring of States' employment and training activities.

With this budget the Food and Nutrition Service can make measurable improvements in these areas.

It is a pleasure to work with the dedicated staff of the Food and Nutrition Service who continue to keep up with changing legislation and complex program operations. We have made strides in program delivery and accountability especially in computerization and systems development. We have worked hard with State agencies to initiate demonstration projects that improve client services and administrative efficiency. We have worked with State and local partners to achieve significant reductions in the Quality Control error rates in the Food Stamp Program. Implementation of regulatory changes required by law continues to be one of our highest priorities. One of my goals is to continue to improve the way benefits are delivered to recipients. I want to increase our sensitivity to the needs of program recipients and to further develop a cooperative, team-oriented relationship with our State and local program operators.

We are in our fifth year of the Information Resources Management Plan. The budget maintains the current level of funding for systems development work. Current projects include the modernization of the basic food stamp management and reporting systems and movement toward completion of the revisions of major Child Nutrition Program systems already begun. We are currently receiving Food Stamp Program data reports in the improved system and are implementing a National Data Bank throughout the Agency.

This spring the Child Nutrition data reporting elements go into final testing and our Minneapolis data center will begin supporting our nationwide Food Coupon Redemption System on new, faster equipment. This summer, all three agencies involved, including Food and Nutrition Service, Agricultural Marketing Service and Agricultural Stabilization and Conservation Service, are scheduled to move to the new Processed Commodity Information Management System, creating another major link in the overall Management Improvement Program of the Agency.

We are not requesting any additional funding for further work on systems funded from the Food Program Administration account pending a full review of our current efforts. Then we will develop a new funding plan during 1990 for the next 5 years.

Thank you Mr. Chairman. I would be happy to answer any questions you, or other members of the committee may have.

BIOGRAPHICAL SKETCHES

CATHERINE BERTINI

Assistant Secretary, Food and Consumer Services, U.S. Department of Agriculture, October 1989 to present—Responsible for the development of national nutrition and consumer policies. Manages the Food and Nutrition Service which administers 13 domestic food assistance programs, including the Food Stamp, National School Lunch, Commodity Supplemental Food, and Women, Infants and Children (WIC) Programs. Also responsible for the Human Nutrition Information Service and the Office of the Consumer Adviser. Oversees a combined budget of more than $23 billion and a staff of over 2,000.

Acting Assistant Secretary, Family Support Administration, U.S. Department of Health and Human Services, March 1989 to October 1989—Administered Federal programs focused on strengthening the family and increasing their self-sufficiency. These programs were Aid to Families with Dependent Children, Child Support Enforcement, Refugee Resettlement, and the Community Services programs. Directed implementation of welfare reform as embodied in the Family Support Act of 1988. Responsible for a staff of more than 1,000 and a budget in excess of $14 billion.

Director, Office of Family Assistance, Family Support Administration, U.S. Department of Health and Human Services, September 1987 to March 1989—Directed the Aid to Families with Dependent Children (AFDC) program, the nation's largest cash assistance program serving nearly 4 million families with needy children. Managed all aspects including the policy, program evaluation, quality control and welfare-to-work activities which comprise AFDC.

Manager, Public Policy, Container Corporation of America, 1983 to 1987—Responsible for operation of the company's nationwide government and community relations, philanthropic functions, and all public affairs activities.

Manager, Regional/State Public Affairs, Container Corporation of America, 1977 to 1983.

Other Government Service: Commissioner, Illinois Human Rights Commission; Commissioner, Illinois State Scholarship Commission; Confidential Assistant, Office of New York Governor Nelson Rockefeller; Legislative Aide, New York State Senate; and ran two city and state government youth employment programs.

Personal: Fellow, Institute of Politics, JFK School of Government, Harvard University; Bachelor of Arts degree from the State University of New York at Albany; received Distinguished Alumnae Award, State University of New York at Albany; Married to Thomas Haskell.

BETTY JO NELSEN

Administrator, Food and Nutrition Service, U.S. Department of Agriculture, January 1990 to present—Responsible for the planning, direction, coordination and control of the Federal food assistance programs which are centralized in the Food and Nutrition Service, United States Department of Agriculture. These programs include food stamps, food distribution, supplemental food for women, infants and children, school lunch, school breakfast, special milk, child care summer feeding and related nutrition activities. The budget of the Agency exceeds $23 billion.

State Representative, Wisconsin Assembly, 1979 to 1989—Member of the Joint Finance Committee, responsible for developing state's $11 billion budget. Represented constituent interests.

Minority Leader, Wisconsin Assembly, 1987 to 1988—Responsible for developing agenda for legislators with governor. Served on the Welfare Reform Commission.

Milwaukee Voluntary Action Center Involvement Corps, 1976 to 1978—Responsible for pilot program linking corporate sector volunteers with nonprofit agencies.

United Way of Greater Milwaukee, 1970 to 1976—Chaired the Agency Evaluation Committee. Lobbied County Board for funding of Central Information and Referral System.

Milwaukee County Department of Public Welfare, 1968 to 1971—Served as chair of Volunteer Services.

Omaha Public Schools, 1957 to 1958—Junior high school teacher.

Community Involvement: A Better Chance, Milwaukee Chapter; Shorewood Public Schools; Future Milwaukee—A Community Leadership Program; Wisconsin Correctional Services; Milwaukee Management Support Organization; Girl Scouts of Milwaukee Area, Inc.; Goals for Milwaukee 2000; American Red Cross, Greater Milwaukee Chapter.

Personal: Graduated Dedham, Massachusetts, Public High School; Massachusetts State College, BS Education, major in food and nutrition; married to James R. Nelsen; 3 children.

STANLEY C. GARNETT

Stanley C. Garnett, has been administering food assistance programs for the last twenty-five years. He has been Acting Deputy Administrator for Special Nutrition Programs since May 1989.

Garnett joined the Food and Nutrition Service (FNS) in 1971 as a Food Program Specialist in the Child Nutrition Programs. He has held many positions in FNS over the years with an increasing degree of responsibility. Most of his early work was in the various Child Nutrition Programs in the legislative and regulatory areas. He was Assistant Deputy Administrator for Special Nutrition Programs for five years prior to assuming his current acting position.

Garnett was born October 28, 1937 in Kansas City, Missouri, where he grew up and attended school. Upon graduation from college in 1958, he taught school for several years in Kansas City. In 1962 he joined the Peace Corps and spent two years teaching English as a second language and doing community development work in the Philippines. Upon completion of his tour with the Peace Corps Garnett joined the Catholic Relief Services and spent the next six years administering food assistance programs in Southeast Asia and Sub-Sahara Africa, including administering refugee feeding programs in Vietnam during the Vietnam war and in Nigeria during the Biafran conflict.

Garnett and his wife have three children.

STATEMENT OF JAMES T. HEIMBACH

Mr. Chairman and Members of the Committee: I am James Heimbach, Acting Administrator of the Human Nutrition Information Service (HNIS). I am pleased to be here today to discuss HNIS's budget request for fiscal year 1991.

MISSION OF THE HUMAN NUTRITION INFORMATION SERVICE

The mission of the Agency is fourfold: (1) to collect, publish, and make available research on the nutrient content of foods; (2) to monitor and report on the patterns of food consumption by Americans and the nutritional adequacy of their diets; (3) to develop concepts and techniques for increasing the nutrition knowledge of professionals and consumers; and (4) to provide the policy basis for issuing Federal nutrition guidance to the American public. This research supports the Department's commitment to monitoring the dietary status of the population and to nutrition education. The importance of research in these areas was specifically emphasized by the Congress in the Food and Agriculture Act of 1977, the Agriculture and Food Act of 1981, and the Food Security Act of 1985.

HNIS has a total of about 94 scientists and support staff in two operating units: the Nutrition Monitoring Division and the Nutrition Education Division. The Nutrition Monitoring Division conducts national surveys to obtain information on food consumption by households and individuals and is the national resource for information on the nutritive value of foods. The Nutrition Education Division determines the factors which influence dietary status and conducts research to determine how guidance can best be communicated to the general public and to at-risk groups. Within the USDA, HNIS has responsibility for the National Nutrition Monitoring System—a system of activities, primarily in USDA and the Department of Health and Human Services (DHHS), that are essential to providing timely information about the dietary and nutritional status of Americans and the factors that affect that status. HNIS also coordinates the development and publication of the Dietary Guidelines for Americans—another joint effort by USDA and DHHS.

FISCAL YEAR 1991 BUDGET REQUEST

The HNIS budget request for fiscal year 1991 is for $10.7 million, an increase of $1.7 million over the 1990 current estimate of $9.0 million. The increase requested would:

1. Provide $1.0 million for the agency's participation in the $25.0 million USDA Food Safety Data Initiative. As one of the four lead agencies, HNIS will establish a Residue Exposure Assessment System which will provide data on the potential exposure of individuals to pesticide residues. The system will link data on pesticide residues found in agricultural products, as determined in a State-based monitoring program administered by the Agricultural Marketing Service, with data on the intake of those products by the U.S. population and population subgroups, as determined from HNIS's Nationwide Food Consumption Surveys. Estimating potential exposure is dependent on the development of (1) a residue data bank which will encode all essential data on residue levels in foods in a form that will allow later linkage with food intake data and (2) a Food Grouping System which will translate data on the amounts of the more than 5,000 food items consumed by individuals back to the agricultural products of which they are composed for linkage with the residue data.
2. Provide $0.5 million for a new nutrition education initiative to increase awareness of the 1990 Dietary Guidelines for Americans. It is anticipated that the Secretaries of Agriculture and Health and Human Services will issue a revised edition of the Dietary Guidelines for Americans by the end of the year. These Guidelines, which represent Federal nutrition policy, help ensure that the government "speaks with one voice. The budget increase will enable HNIS to conduct a major effort to increase awareness of the new Dietary Guidelines and to help Americans implement the Guidelines in their daily food choices. In addition, special efforts will be made to get appropriate dietary guidance to hard-to-reach populations who may be at nutritional risk, such as low-literacy groups, the elderly, teenagers, and the poor.
3. Provide $0.2 million for increased operating costs.

In addition, our budget request would support ongoing HNIS activities in the Nutrition Monitoring and Nutrition Education areas.

NUTRITION MONITORING

Major monitoring activities in progress include:

1. The analysis and dissemination of results from the 1987-88 Nationwide Food Consumption Survey (NFCS). Preliminary results indicate that mean intakes of cal-

ories and fat by women 20 and over were lower in 1987–88 than 10 years earlier, while intakes of carbohydrates, vitamin A, and calcium increased slightly. A special "Bridging Study," undertaken to determine the effect of changes in survey methodology between the 1977–78 NFCS and the 1987–88 NFCS on the comparability of food and nutrient intakes from the two surveys indicates that the methodology changes had little effect and that intake estimates from the two surveys may be compared.

Analysis plans include the funding of several research agreements with universities to identify factors influencing the dietary status of special segments of the population, especially those that may be at nutritional risk. Publication plans include a series of popular chartbooks for Congress, consumers, and the media, which will provide information on the American diet in a graphic, easy to understand format.

2. Monitoring the Continuing Survey of Food Intakes by Individuals (CSFII) 1989 through 1996 including the telephone followup survey that will assess consumer perceptions on diet/health and food safety issues. Activities include (a) providing technical support for the contractor and the field staff responsible for interviewing and coding the data, and (b) updating the survey support systems.

3. Continued coordination with DHHS to assure that the monitoring activities of the two Departments meet the needs of Congress and others for information on dietary and nutritional status of the population. Coordination is carried out by the Interagency Committee on Human Nutrition Research, the Interagency Committee on Nutrition Monitoring, the HNIS/NCHS Coordinating Committee, and the NFCS Data Users Group.

4. The provision of annual estimates of the nutrient content of the national food supply. This series provides the only source of data on trends since 1909 in foods and nutrients available for consumption.

5. Assistance to State public health nutritionists and other State and local leaders in the use of USDA's nutrition monitoring data through participation in workshops and the design of research projects focused on the development of data on dietary status particularly useful to each State. Using NFCS 1987–88 data, a model is being developed to generate state-by-state estimates of dietary status.

6. Maintain and continually update the National Nutrient Data Bank (NNDB) and the Survey Nutrient Data Base. It is this data bank that will serve as the model for the residue data bank discussed earlier as an HNIS contribution for the 1991 Food Safety Data Initiative.

The Survey Nutrient Data Base is specifically organized and maintained to analyze diets reported in both USDA and DHHS dietary surveys. An HNIS-NCHS interagency committee decides when food items should be added to the data base or when existing food descriptions should be modified.

The data base and associated programs will be made available in a micro-computer system currently under development by USDA and the University of Texas.

A Nutrient Data Bank Electronic Bulletin Board is maintained to expand communications between HNIS and nutrient data users. It is accessed by personal computer and provides up-to-date information about HNIS nutrient data releases and other relevant topics.

7. Monitor and incorporate into the NNDB results of analytical research on the nutritive content of foods. Current work is for foods that are major contributors of fat, fatty acids, cholesterol, and plant sterols and for all nutrients in the most frequently consumed beverages, selected dairy products, vegetables, and legumes. This research is being done through extramural contracts.

8. Publication of the last three (of 22) sections of Agriculture Handbook No. 8 (Mixed Dishes, Snacks and Sweets, and Baked Products). The "Beef Products" section completed in 1986 is being revised and reissued following a market basket study that shows closer fat trim at the retail level. Early reports from a similar study indicate that pork is now considerably leaner than shown in the Handbook, and so a revision of the pork-products section is planned.

The 2nd Annual Supplement is in progress. This supplement is a vehicle for releasing new or updated food composition data as they become available.

NUTRITION EDUCATION

The agency conducts an ongoing research program to assess the dietary status of Americans including the factors that influence dietary status and to determine the most effective methods and strategies for improving the dietary status of Americans. Major activities fall into four areas:

1. Establishing Dietary Guidance policy. For example,

—HNIS and the Office of Disease Prevention and Health Promotion of DHHS have jointly sponsored the Dietary Guidelines Advisory Committee, which has been working since January 1989 to review the 1985 edition of the Dietary Guidelines for Americans. The present draft of the Committee's report indicates that they agree that the central messages in the 1985 Dietary Guidelines remain sound advice. It is anticipated that changes in wording, emphasis, and specificity will be recommended. The Committee's report will be used by the two Departments to prepare the next edition of the Guidelines.

—HNIS chairs the USDA's Dietary Guidance Working Group, comprising representatives from nine USDA agencies and a liaison member from DHHS. This group reviews all USDA guidance materials prior to publication to ensure that the Department "speaks with one voice" in expressing Federal nutrition policy. HNIS provides a liaison to the DHHS Nutrition Policy Board's Subcommittee on Dietary Guidance, the corresponding group at DHHS.

—HNIS works cooperatively with other groups to help ensure that consistent, accurate, understandable dietary guidance messages are given to the public. For example, HNIS provides critical review and input to projects such as the Year 2000 Health Objectives for the Nation, the National Cholesterol Education Program, and Project LEAN, a private sector initiative to lower fat in the American diet.

2. Assessing dietary status and the factors that influence dietary status. For example,

—HNIS works cooperatively with DHHS to produce triennial reports on the dietary and nutritional status of the U.S. population. The second of these reports was sent to Congress in September 1989. Planning has begun for the third report. Input on how the reports meet the needs of users is being sought as part of the planning process.

—HNIS will continue to utilize its newly developed Dietary Change Research Model. This unique computerized modeling system measures the amount of change that would be required in the average American eating pattern to meet any set of dietary recommendations. It thereby provides insight on the barriers to dietary change.

3. Researching tools and techniques for communicating dietary guidance messages. For example,

—The penetration and use of the Dietary Guidelines has been studied by HNIS and USDA's Extension Service in cooperation with the University of Wisconsin. Interviews were conducted with food and nutrition professionals and with consumers. The professionals who were interviewed expressed strongly the need for a single set of guidelines from the Federal Government, i.e., "speak with one voice," and saw the need for fresh and interesting presentations of guidance information as critical to gaining public attention and acceptance.

—In a cooperative study with the Pennsylvania State University, consumers were found to react positively to the idea of dietary guidelines from the Federal Government, but did not understand several guidance issues, especially those related to starch and fiber, fat, fatty acids, sugar, and sodium. They expressed a need for more specific information on how to really put the Guidelines into practice.

4. Developing dietary guidance materials and activities. HNIS develops consumer publications which translate complicated nutrition research into terms that are understandable and useful to consumers and which provide them with the practical information needed to put dietary guidance into practice. For example,

—HNIS will continue its new consumer nutrition education campaign called "Eating Right * * * The Dietary Guidelines Way," initiated last July. The campaign was kicked off with the release of four new colorful bulletins on Preparing Food and Planning Menus; Making Bag Lunches, Snacks, and Desserts; Shopping for Food and Making Meals in Minutes; and Eating Better When Eating Out. Information about the campaign and/or press kits have been sent to Congressmen, State governors, Commissions of Agriculture and nutrition coordinators in state health departments and departments of education. An excellent example of how we would like to see the "Eating Right * * *" campaign adapted is underway in Wyoming. In March, the entire State will be "Eating Right" in observance of National Nutrition Month.

—Soon to be released are a series of seventeen factsheets on good sources of nutrients and a revised edition of a popular pocket guide entitled "Calories and Your Weight." Currently in production are materials that focus on the needs of special groups: (1) a cooperative effort is underway with the University of Nebraska to adapt current guidance materials for use with low-literacy audiences;

(2) a cooperative project is underway with the National Institute on Aging to develop materials to help healthy older Americans implement the Dietary Guidelines; (3) a new presentation of USDA's food guide, to be called the Food Guide Pyramid, is in preparation; (4) a dietary analysis program developed as a teaching tool for the Extension Service has been adapted to work with Apple computer hardware to increase its usefulness in high school curricula; and (5) a cooperative effort is underway with the National Association for the Advancement of Health Education to develop a teacher's guide to facilitate incorporation of Dietary Guidelines concepts in health education curricula—building on the success of a similar guide developed in 1988 for home economics teachers.

—HNIS develops USDA's family food plans. These represent the quantities of various food groups that would provide a nutritious diet at four different cost levels. The cost of food in the food plans is estimated and released monthly. The cost of food in the Thrifty Food Plan for the 4-person household, is used by the Department in setting benefits for the Food Stamp Program.

In summary, HNIS is the national resource for information on the nutrient content of individual foods and of the food supply and on the food and nutrient content of diets of households and individuals. The Agency conducts research needed for the development of materials and techniques required for helping Americans to improve their diets. We view these activities as basic to the Department's mission to assure that a safe, nutritious, wholesome supply of food is available to all Americans and to provide information that healthy Americans can use to select nutritious and healthful diets.

Mr. Chairman, I will be happy to answer any questions you or other Committee members may have.

FOOD STAMP FUNDING

Senator BURDICK. The 1991 budget includes an additional $500 million to ensure the availability of sufficient funds for the Food Stamp Program throughout the fiscal year and to avoid supplemental appropriations. On what factors is this amount based?

Given the 1990 appropriation was augmented $1.5 billion over the budget and a supplemental appropriation of possibly more than $500 million is still necessary, how can we be sure that the $500 million provides an adequate cushion for 1991?

Ms. BERTINI. That is an excellent question, Mr. Chairman. It is difficult, in these times as the food stamp recipient numbers are increasing, for us to give a specific number that we think is appropriate.

When we look at the 1990 figures, for instance, as I mentioned, we think we will need an additional appropriation of anywhere between $375 and $510 million because the numbers of people receiving food stamps are increasing.

So when we put together the budget request for 1991 we put in two things which are key to preserving the Food Stamp Program for those who are in need. One is the $500 million which is based roughly on estimates that we had put together previously of what might be necessary for the Food Stamp Program for increases in the future. More importantly, however, we propose to include language, to appropriate such funds as may be necessary in the budget so that we would not be in the position of having to go back to the States and potentially to the clients to say we do not have enough money and we may not be able to fully fund the Food Stamp Program.

We are proposing, therefore, both the $500 million cushion and the language for such funds as may be necessary so that we can best ensure that food stamps are available to all of those in need.

Senator **Burdick**. Are you sure that $500 million is enough if we do not appropriate such sums as are necessary?

Ms. **Bertini**. It is our best estimate at the current time, but I do not think we can sit here and say absolutely $500 million is enough, because it is possible that the situation next year could be such that we would have to come back for more funds. We believe at this point that our request would be an adequate number.

Senator **Burdick**. Instead of saying such sums as may be necessary, could you be more specific on these estimates?

Ms. **Bertini**. We have been every year, Mr. Chairman, as specific as we can be in terms of estimates, and every year or almost every year we end up coming back for supplemental appropriations. So we believe that such funds as may be necessary would be much better in terms of ensuring that we would have the funds available for the program.

I might also add that we have similar language in the AFDC Program, the Aid to Families With Dependent Children Program, in the SSI Program, in the Black Lung Program, and in the Medicaid Program so that such sums as may be necessary would be available in those programs. We are recommending that similar language be put in for our program as well.

Senator **Burdick**. Is the correlation between unemployment and food stamp participation changing such that the cost cannot be estimated with any accuracy?

Ms. **Bertini**. Yes, sir; the unemployment factors in the past have been reasonable indicators, but there are other situations now, immigration being one potentially and other situations in different States that are affecting numbers of people who are eligible for food stamps.

Senator **Burdick**. I see that Senator Kasten has arrived. You are recognized, Senator.

Senator **Kasten**. Mr. Chairman, thank you.

First, Mr. Chairman, I would like to welcome Betty Jo Nelsen, the new Administrator of Food and Nutrition Service. As you know, Mr. Chairman, she is from Wisconsin, an experienced veteran of the State legislature and also, importantly, a good friend. So I want to congratulate you on your new position. I look forward to working with you as the Agriculture Subcommittee works on the 1991 appropriations bill.

SPECIAL MILK PROGRAM

I was pleased to see an increase of $1.3 million for the Special Milk Program. This program encourages children to drink more milk by subsidizing half pints of milk in schools and institutions that do not participate in other federally funded meal service programs. Obviously this is an important program not only for Wisconsin children but also for Wisconsin dairy farmers, so we have a special interest in it.

To what do you attribute the increase in participation in fiscal year 1991, and how can we continue to encourage participation in this program?

Ms. Nelsen. Thank you, Senator, and thank you for your welcome. I, too, am pleased to come before this committee in my new position as administrator of the Food and Nutrition Service.

The Special Milk Program is a very important part of meeting the nutritional needs of children. I believe that the increase in participation can in part be attributed to the growth in the numbers of school age children. We have bottomed out in terms of the number of kids in elementary school in particular, and now we see an increase in those numbers. So that would account for part of the increase.

We, like you, are very dedicated to providing this milk daily to children who do not participate in the full School Lunch Program.

THE WIC PROGRAM

Senator **Kasten.** I wanted to talk a little bit about the WIC Program, the special food supplement program for women, infants, and children. It is heavily relied on by pregnant, post partum and breastfeeding mothers and children under the age of 5 in Wisconsin and other States. This program has had strong support from the Congress. It is cost effective. It ensures that well-fed women and children today do not become dependent upon the Government for health care in the future. So in a way it is investing money early on and saves money later.

The administration requested an increase in this program. The increase is $100 million. A number of people that have looked at this program feel that the administration request might not be adequate to fulfill the needs.

Could you give me the rationale for the increase and why the administration thinks that this is adequate? Is it inadequate? I do not know if this is negotiating back and forth with OMB or if this is what we really think is needed, but this is traditionally a battle that we fight back and forth, the Congress with the administration, and I kind of sense this battle starting up again.

Ms. Nelsen. First of all, I do not think we can have a battle because we are all on the same side. We all believe strongly that women, infants, and children deserve our special consideration, especially pregnant women, because we know, Senator, that the earlier that we can reach out to these women and bring them into this program, the more likely we are to be able to provide encouragement to them not only in their nutrition but also to getting prompt medical care. So this WIC Program is critical for this population.

WIC PARTICIPATION

Our current estimates are that with the approval of the requested amount, we will serve two-thirds of the total population which is eligible for the program. Within that context, we believe that we are serving all eligible infants and 90 percent of all eligible women who are pregnant. We want to serve that remaining 10 percent. Some of that requires extensive outreach, and we are addressing that issue.

On the funding side of this equation, I would like to point out that we have had tremendous success in terms of funding the program through the successful use of rebates. You may remember from the reauthorization of the program that went on last year that there is now a requirement for all States to use the most cost effective method with the formula companies in providing revenues for this program. So in part, the appropriation request from the Congress masks the revenue that is available from this other source.

I am sure if you visited the sites you know this, but the other piece of the equation that we have to be very watchful for is that this program is not just a program where you pass out food packages to people. There is also a great deal of interaction with the clients who come into the program, so that monitoring of their nutritional needs and counseling with them is a critical component.

What we have seen in the last year or 18 months is that the population has grown so much with those being served that the program is really strained at this point in terms of locally meeting this counseling and the personal requirements of these clients. So it is not just reaching people, it is also adequately serving people with this kind of personal contact. All of us have to be cognizant of the demands we are putting on the work force out there in the States and at the local level as they try to reach out to these folks as well.

Senator **Kasten**. We look forward to working with them, and I am sure that I speak for the chairman and the ranking member. This is a program that all of us support, and I hope you are right. I hope that we all in fact are on the same side. I believe that to be the case.

Mr. Chairman, I do not know if you have a time agreement. I have one other question I would like to ask if I could with regard to school lunches.

Senator **Burdick**. Go right ahead.

SCHOOL LUNCH PROGRAM

Senator **Kasten**. With regard to the School Lunch Program, about 10 days or 2 weeks ago there were a number of school lunch administrators that were here and stopped at many of our offices. I know I had several from Wisconsin, and they were concerned over the proposal in the 1991 budget request which would create a new subsidy level for middle-income students who participate in the School Lunch Program.

They were worried that it would result in overall lower participation in the program. I do not know what the threshold is, how many meals they have to serve in order to keep their kitchens open or whatever, but they were suggesting to us that if this new subsidy level came in that fewer people would participate and that might mean that fewer programs over all would be in existence.

Frankly, I do not know enough about the way these programs operate, and I also do not know where that threshold is. Could you tell us a little bit about the new subsidy level for middle-income students and then specifically address yourselves to the question with regard to whether or not there will be a decrease or an increase or it will stay the same in terms of overall participation based on the information you all have.

PROPOSED SCHOOL LUNCH CHANGES

Ms. **Nelsen**. Thank you, Senator. I would be pleased to.

The issue you are addressing is in the President's budget, and we support his proposal, which is to increase the subsidy for children of the working poor. So I am starting now on this discussion at the low end of the income scale up to 130 percent of poverty. You must remember that all families who qualify for AFDC are also eligible for free lunch.

Then we have a classification that runs, I believe, from 130 percent of poverty up to 180 percent of poverty, and those youngsters are currently paying 40 cents per lunch. The President has proposed that that amount of money charged the near poor be reduced to 20 cents per lunch, and we anticipate with that reduction that the participation rates for low income working poor families will increase, but it is very difficult to say how many of those children who now find 40 cents to be too much will in fact participate when the price is reduced to 20 cents.

Senator **Kasten**. So with regard to that group, in fact, they are getting lunch at a lower cost?

Ms. **Nelsen**. Exactly.

Senator **Kasten**. From 40 cents to 20 cents.

Ms. **Nelsen**. Correct. Now the way the President proposes to pay for the change is by reducing entirely the subsidy for children who are in families where the income is $42,000 or greater per year for a family of four. So all of those four-member families where the income is greater than $42,000 per year would pay the entire cost of the school lunch. I think that is what the school food service people are concerned about in terms of what will this do to participation.

We have looked at past times when the cost of the school lunch has gone up and tried to predict what would happen. It is very, very difficult because one time in the past that happened in the early 1980's there were a number of other factors. So it is very hard to say.

I think the way to look at this and to make your own decision is that right now the average cost of the school lunch is $1 for those families. Under this proposal it is likely to go to $1.30. As a family is sitting there making decisions about their resources and the kids' lunch now has gone up 30 cents, will that in fact deter them from participating when it is, in fact, less than one-half the cost for a can of Coke?

I mean, we have to put this in perspective. Thirty cents is very little in today's budget for families who earn more than $42,000 a year for a family of four, but that same 20 cents is very important to families who are almost at the poverty level.

Senator **Kasten**. For fun, let us say that you are going to lose 10 percent of the over $42,000. Do you have enough information to know if you are going to pick up 10, 20, or 30 percent of the under $42,000? Is there a way that you can say you are going to gain more by going from 40 cents to 20 cents that would offset, or is your position that no one is going to quit over the 30-cent change at the top?

Ms. **Nelsen**. No; I do not think I would take a position that no one will quit, because I think some people may be quitting, at least temporarily.

That is the other factor. Some people may say we are not going to pay this, but after they have made school lunches for 2 weeks they may say 30 cents is really a cheap deal, because they go out in the market and try to buy sliced turkey or sliced ham and they find out how much it costs. School lunch is the best bargain in town in addition to its also being nutritious.

So we think that over all the level of quits will not be as high as the doom and gloom sayers are predicting. At the same time, I cannot in good conscience give you any reliable numbers because we have no method of being able to anticipate what the public would decide on this point.

Senator **Kasten**. Mr. Chairman, thank you.

I look forward to working with you on these and other challenges that you are going to be faced with. I just cannot say how pleased and proud I am that you are part of this new administration, Ms. Nelsen.

Ms. **Nelsen**. Thank you.

Senator **Kasten**. Thank you, Mr. Chairman.

WIC FUNDS RETURNED FROM STATES

Senator **Burdick**. Have any States had difficulty in absorbing the full appropriation provided to date? Have any States returned funds to the national FNS office due to an inability to use the funds? This is with regard to WIC.

Ms. **Bertini**. We are going to ask George Braley to answer that question.

Mr. **Braley**. Mr. Chairman, with this WIC funding we have had very little money turned back to the agency. In fact, last year we ran two reallocations as we have generally done for the past decade, and we had less than $10 million returned out of a total program of about $2 billion last year. So the amount of money that is actually being returned by States these days is very, very small.

Senator **Burdick**. Would the WIC Program effectively be able to absorb a $150 million appropriations increase in 1991?

Ms. **Bertini**. Be able to absorb an increase, Mr. Chairman?

Senator **Burdick**. Yes.

Ms. **Bertini**. As Betty Jo Nelsen mentioned, we are committed to providing the best possible service to the largest number of people who are eligible, and serving more people in any way we can is high on our priority list.

Senator **Burdick**. That still has not answered my question. Yes or no?

Ms. **Bertini**. If the money were available we could absorb the money, Mr. Chairman.

COMMODITY SUPPLEMENTAL FOOD PROGRAM

Senator **Burdick**. Various administrative decisions made in 1990 have affected the expenditure of appropriations for the Commodity Supplemental Food Program. Caseload expansions approved for various sites were subsequently cut back, and a great deal of confusion resulted.

What was the total caseload expansion approved in 1990, and how much was this total cutback based on administrative decisions about nonfat dry milk shortages?

Mr. **Braley.** Mr. Chairman, if I may, I can respond to that question. Last spring caseloads were increased in the Commodity Supplemental Food Program by 30,000. We put out 30,000 new caseload slots to the participating agencies to expand participation among the elderly that were eligible but currently unserved by the program.

As we began this new fiscal year we came into a situation we had not anticipated, in that nonfat dry milk was no longer available in surplus supplies from the Commodity Credit Corporation. We had to go out on the open market and attempt to purchase nonfat dry milk. For a time we were unable to purchase any nonfat dry milk for this program at any price. We had no offers made to us. We had to substitute evaporated milk, a more expensive and, frankly, a product less desired by State agencies. That did cause us to have some unanticipated expenditures.

COMMODITY SUPPLEMENTAL FOOD PROGRAM CASELOAD CHANGES

The appropriation we had available enabled us to serve the number of participants that we had at the end of the fiscal year, but not the full caseloads that were assigned. In other words, some people had slots that they could use in September, but they had not put people on the program. We had to take back some of the vacant slots that were there in September when we did the new caseload allocations in December. So there were some reductions in available slots, and some people have had to adjust their participation. It was largely due to the unavailability of nonfat dry milk.

Senator **Burdick.** How many did they take back?

Mr. **Braley.** Senator, the number I have is around 18,000 caseload slots taken back. Again, that was not at the expense of participants that were on the program as of September, though by the time word was given some people had added participants and are now having to adjust to their new caseloads.

Senator **Burdick.** Are there other reasons for the caseload cutbacks? If so, what are they, and what were the resulting cutbacks?

Mr. **Braley.** Each year when we do the caseload allocations we take a look at the available resources, the funds that the Congress has appropriated and any carryover money, and we decide how many people we can support within that available money. The cost of the food package going up because of the unavailability of nonfat dry milk was really what drove our caseload decisions this year and caused us to make some reductions. That was the only mitigating factor that caused those caseloads to have to be reduced.

NUTRIENT ALTERNATIVES

Senator **Burdick.** What alternative calcium and iron sources has FNS considered substituting in the place of milk when surplus commodities are not available? Have cost and benefit factors been weighed in seeking substitutes?

Mr. **Braley.** Mr. Chairman, when we were faced with this situation, the principal nutrients are protein and calcium that come from the nonfat dry milk, and the best substitute and one that we normally substitute at a local agency's request is evaporated milk. We also use that item for the Food Distribution Program on Indian Reservations.

We could not find, in the amount of time we had available, another good source of calcium for this population. When speaking of pregnant women and young children and the elderly, for that matter, calcium is a very important nutrient. At least in the amount of time we had available when we were adjusting to a sudden shortage of nonfat dry milk, we were not able to find a good alternative source of calcium, though we plan to look at that just in case we find ourselves in that situation again.

Senator **Burdick.** Well, if we looked at it right now, what would the situation be?

Mr. **Braley.** At this moment I think we would probably be in a nonfat dry milk or evaporated milk kind of situation. I guess there is some potential to go out and purchase some cheese for the program. If we had to react quickly, I think what we would try to do is call in the people that operate this program and consult with them and make a collective decision about how to respond to the situation. Perhaps they would have some innovative suggestions that we have not yet thought of at this point.

I think in the future if we are in this type of a predicament we would consult with the people who are actually operating the program even more than we did in this case.

Senator **Burdick.** I would now call upon the Senator from Mississippi.

Senator **Cochran.** Thank you, Mr. Chairman. Let me welcome the panel to our hearing. We appreciate very much Assistant Secretary Bertini and all the others being here this morning and helping us review this part of the budget that comes under the jurisdiction of our subcommittee.

LEGISLATIVE CHANGES

I notice that several legislative changes are suggested in the areas relating to child nutrition programs, particularly School Lunch Program; the Food Stamp Program; as well as the Temporary Emergency Food Assistance Program. I know everybody realizes some of these changes will be reviewed by the Agriculture Committee when it reauthorizes these programs as a part of the 1990 farm bill. We will be monitoring the actions of that committee.

TEMPORARY EMERGENCY FOOD ASSISTANCE PROGRAM

As we consider the funding levels and how much we should consider recommending to the Senate for funding of these various programs, one thing occurs to me, and that is that we keep seeing the Temporary Emergency Food Assistance Program. I wonder how long that program has been a temporary program. Does anybody remember when we started that temporary program?

Mr. **Braley**. Senator Cochran, it has been in existence since about 1983, so it has been 7 or 8 years now.

Senator **Cochran**. My thought is that if we are going to continue the program, we ought to rename it. Has that been suggested?

Ms. **Bertini**. Senator, I have heard on the House side the suggestion that "Temporary" be replaced with the word "The" so that the acronym could still be used.

Senator **Cochran**. Is that a part of the suggestion? What does the administration suggest we do? Is that part of the budget assumptions or proposals?

TEFAP REAUTHORIZATION

Ms. **Bertini**. Yes; we are proposing in the farm bill that there be a $120 million reauthorization for the TEFAP Program along with a $50 million reauthorization for the administrative costs. We are proposing, in other words, the same thing for fiscal year 1991 that was appropriated for fiscal year 1990 and a reauthorization of the program.

Senator **Cochran**. I think, by and large, that is an illustration that the administration is sensitive to the need of Government assistance to help ensure that adequate levels of nutrition and of food are available for people throughout the country who need that kind of assistance.

In the past we have had situations where the administration has requested that programs be terminated. This is, I think, an example of a new approach to try to work with the Congress, and I hope we can see some cooperation from our Agriculture Committees to reshape and improve some of the programs from an administrative efficiency standpoint.

PUERTO RICO

I noticed that some questions that I was going to ask have already been asked and answered. Has the Puerto Rico Block Grant Program been discussed? I am told by my staff that the budget does not include nutrition assistance for Puerto Rico. It was funded at $937 million last year.

What is the proposal with respect to the Puerto Rico block grant?

Ms. **Bertini**. Senator, the administration is proposing that the Puerto Rico block grant be transferred from the Department of Agriculture to the Department of Health and Human Services. At HHS there are other block grants that serve Puerto Rico. In fact, all of the block grants that do serve Puerto Rico with the exception of this one are administered by Health and Human Services.

The administration believes in the interest of streamlining administration, as you had mentioned before, that it would be appropriate to have all of the programs together, that it would be a better way to administer the programs and a simpler way to administer the programs. So they are recommending that the nutrition program remain and that it be moved to HHS.

FOOD STAMP PROGRAM REAUTHORIZATION

Senator COCHRAN. I also notice that you are suggesting legislation to remove the cap that is prescribed by law for the Food Stamp Program so that funds can be appropriated as needed. I agree with you. I think that is an artificial ceiling that from time to time has caused some problems, because you have had to send out notices advising participants that food stamp money was running short and that the program would not be continued after a certain date.

That is very alarming. The reason you had to do that is not because you wanted to terminate benefits, but because the law capped the program.

It seems to me that we need to get rid of that, so I hope that the committee will go along with that suggestion. Hopefully, those of us who serve on both committees can talk to our friends on the Agriculture Committee, and can have some influence on that subject.

FOOD STAMP SUPPLEMENTAL APPROPRIATION

I understand that there is a supplemental pending, and that you will be requesting some funds for the Food Stamp Program. Do you have any numbers to give us this morning, or have you already provided the committee with that information?

Ms. BERTINI. Senator, we have provided numbers to Chairman Leahy in our February 15 letter that suggest that our current estimates of what would be necessary for a supplemental are between $375 and $510 million. At this point we are very carefully reviewing those figures every month because we are seeing an increase in participation, and an increase may in fact affect that range.

Senator COCHRAN. Mr. Chairman, thank you very much. I know you have covered a lot of ground with the witnesses this morning, and I appreciate the opportunity to review this part of our budget.

Thank you very much.

Ms. BERTINI. Thank you, Senator.

FOOD STAMP—ELECTRONIC BENEFIT TRANSFER

Senator BURDICK. I understand that FNS is involved in some electronic benefit transfer programs. Would you be so kind as to explain what that is?

Ms. BERTINI. I would be delighted, Mr. Chairman. The Electronic Benefit Transfer Program first came to FNS' attention about 10 years ago. It is a technology that is similar, in fact almost identical, to the ATM process that banks use where one has a plastic card much like a credit card that you use in a bank station to receive cash.

In the Electronic Benefit Transfer Program as it applies to food stamps, those cards are issued to food stamp recipients instead of coupons, and the cards are then used in grocery stores to purchase food. The individual would have a PIN number much like we do if we have these cards at banks, and the PIN number would then be programmed in. When one is purchasing food, the amount of that particular food purchase would be subtracted from the total monthly allotment for food stamps.

ELECTRONIC BENEFIT TRANSFER EXPERIMENTS

We have two experimental programs going on right now in this area, one in Reading, PA, and one in a neighborhood in Baltimore, MD. The Reading project is a food stamp only project. This technology is used only for delivery of the Food Stamp Program service.

In Baltimore, however, we have several social service programs combined. The clients have not only use of this card for food stamps but also for the AFDC Program, for the Maryland welfare program, and for the child support program. So a client can go through the food line and use this card for food, or he or she could also go to a cash station and use the card to draw down on their AFDC or their Maryland welfare payment for that month.

We are finding in the Baltimore and Reading projects much support and enthusiasm on the part of the clients, on the part of the grocery stores, and on the part of the banks. We are looking to expand this experiment in several other areas around the country.

In addition, we are proposing in the farm bill that beginning in April 1992 States may have the option if they would like to go beyond a demonstration project and actually put this program in place.

We think, Mr. Chairman, that there are several important benefits from this program. One is that the clients can be assured that all of the food stamp money that they are allocated for that particular month actually goes for food because the card has no other use. It is not like food coupons that can be traded on the street.

We also have found that the clients like the use of this new technology, and they are very encouraging in terms of their comments in these two areas.

We also think that it is a more efficient way of delivering the service and the program, and we are hopeful that our experiments will also show that in the long run if we are combining food stamp benefits with those of other programs it is at least cost neutral and potentially a cost saver.

Senator **Burdick**. I am sort of a suspicious character once in a while. Suppose this transfer does not come out to exactly the same amount as your grocery bill. Is there change given back or something?

Ms. **Bertini**. No; the grocery bill is the amount that should be subtracted from your monthly allotment. So let us say, for instance, you usually get $200 in food stamp coupons. Instead, the computer would know that you have $200 of food stamps. When you buy your groceries, if your grocery bill was $49.50 that would be programmed in, and then for the next time you go you would have left $150.50.

Senator **Burdick**. There is no change in cash?

Ms. **Bertini**. No, sir.

Senator **Burdick**. In terms of the Food Stamp Program, are EBT's more cost effective than paper coupons? If not, when would the EBT's become more cost effective? Is it a question of changing the whole system over to EBT's, of ironing out the quirks, of educating the participants? Would you like to compare the two systems?

Ms. BERTINI. Yes; in terms of costs, we have seen in the Reading project that EBT is not cost effective. Our estimates show that it costs us about $3 per person per month to deliver the current traditional food stamp coupon system. In Reading it is costing approximately $9 per person per month. As I mentioned, in Reading it is a food stamp only service.

In Baltimore, because we have combined four different welfare programs, it is costing us $2.50 per client per month to deliver the service for food stamps, so that, in fact, in Baltimore the service delivery is less with the EBT system than it is with the traditional system.

Now this is a very small program in a small neighborhood, and we have a long way to go in terms of continuing to proceed. So long term we do not yet have specifics in terms of how much difference this might be.

Senator BURDICK. Are you preparing a report for the Congress on the various EBT demonstrations? If so, when will it be ready?

Ms. BERTINI. We have, as I mentioned, the two demonstrations, plus we have several others that are currently underway or currently being planned, none of which are up, in Albuquerque, NM, in Washington State and in Minnesota. We have projects that are currently ready to be put in place.

In terms of an actual report, Mr. Chairman, Mr. Braley can answer that question.

Mr. BRALEY. We have a report that is due this spring on the Reading project, which is the one that has been operating the longest. We expect in 1992 and 1993 to have more experience with some of the other demonstration projects that have been approved but are not yet operational. Those projects are in Minnesota, New Mexico and Washington State. We plan to follow them very closely and continue to keep the Congress apprised of how they are moving both in terms of operations as well as costs.

Senator BURDICK. You say at this point with your limited experience they are successful?

Ms. BERTINI. We are very encouraged. Yes; we would say that we have had such a positive response from both Reading and Baltimore that we are cautiously optimistic, Mr. Chairman, and we would like to say they are successful. Frankly, the Baltimore project is relatively new, and it has been successful to date. If it continues to be successful, then we will talk about expanding that.

We are enthused about this as a possible new method of service delivery. I might also add that we have had a lot of interest on the part of States in this program both in terms of competing for the demonstration projects and in terms of their interest in going forth with similar programs.

FOOD SAFETY INITIATIVE

Senator BURDICK. The 1991 budget proposes a $25 million food safety initiative. The Human Nutrition Information Service would take part in this initiative by establishing a residue exposure assessment system to provide data on the potential exposure of individuals to pesticide residues. That is quite a system.

How would the residue exposure assessment system be developed? What types of foods would be assessed, and upon what scientific methodology would this data be based?

Dr. HEIMBACH. Senator, the plan is to take residue data that will be collected in a State-based system administered by the Agricultural Marketing Service. That program will provide information on residues on agricultural products. That information in turn will then be combined with the information on food intakes of the total population and of selected population subgroups available from HNIS's nationwide food consumption surveys.

Putting these two data sources together allows us to estimate what the potential exposures of the total population and the specific subgroups would be for residues from the selected agricultural commodities. This information, of course, is then made available to the Environmental Protection Agency and the Food and Drug Administration for their programs.

Senator BURDICK. Is the Food and Drug Administration's total diet study inadequate?

Dr. HEIMBACH. The total diet study is not inadequate for what it is intended to do.

First, let me mention that the sampling of food for the total diet study currently is based on the food intake data from our surveys, so this in no way replaces the total diet survey, which is not aimed at providing the ability to estimate on a nationwide basis potential exposure to pesticide residues. It simply is not large enough for that purpose.

Senator BURDICK. How would the efforts of HNIS be distinct from and yet complementary to FDA's Residue in Foods Program? Are both programs necessary? If so, why?

Dr. HEIMBACH. Yes; I think both programs are necessary. We have already discussed the total diet study. The second part of the Food and Drug Administration's Residues in Foods Program is a problem-based regulatory monitoring program. It samples raw agricultural products, like the USDA proposal, but it is a regulatory program that is aimed at tracking violations of pesticide residues according to the tolerances set by the Environmental Protection Agency. It is not based on a probability sample, a representative sample of agricultural produce in this country. Consequently, it is aimed at identifying and correcting problems rather than in providing information about the total system in this country of pesticide use.

SUBMITTED QUESTIONS

Senator BURDICK. This concludes today's hearing. Thank you for your testimony. Additional questions will be submitted for written response by the following Senators: Cochran, Burdick, and Grassley. We ask you to respond to them within 5 days.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

FOOD AND NUTRITION SERVICE

QUESTIONS SUBMITTED BY SENATOR BURDICK

FOOD STAMP PROGRAM SUPPLEMENTAL APPROPRIATIONS

Question: Following submission of the President's budget last year, the 1990 Food Stamp Program appropriation was adjusted at various points during congressional consideration to reflect changes in benefit levels and participation. The changes resulted in a $1.5 billion increase over the President's initial budget recommendation.

Ms. Bertini and Ms. Nelsen, the 1991 budget includes a 1990 supplemental request of "such sums as may be necessary" for food stamps. Your current estimates range from $375 million to $510 million, each exceeding the authorization ceiling approved for 1990. Why can't more specific estimates be presented?

Answer: At this time, we have preliminary data from the States only through February. We must rely on projections for over half the fiscal year, a time period in which the program has typically had a downturn in participation. However, we have not seen traditional seasonal patterns of participation in the past year. This may mean that there are underlying changes in participation behavior which would increase the uncertainty in our estimates.

Even relatively small changes in participation can change estimated costs substantially in a program the size of the Food Stamp Program--FSP. An increase in participation of less than 1 percent can cause program costs to grow by over $100 million. Thus, because of the uncertainty regarding future FSP participation, we are unable to be more specific at this time.

Question: Is the correlation between unemployment and food stamp participation changing such that costs cannot be estimated with any accuracy?

Answer: FSP participation has risen over the past year despite a relatively stable unemployment rate. Unexpected increases in participation are also occurring in the Aid to Families with Dependent Children--AFDC--and other welfare programs. In response to this, we are investigating factors other than unemployment that could be causing this recent increase in participation.

Question: What factors are contributing to the lack of predictability in the Food Stamp Program budget?

Answer: There is not one principal reason which explains the increase in participation in the FSP in the last year. Instead, there seem to be several contributing factors which affect both increases in participation rates and in the number of people eligible for program benefits.

There have been changes in other programs, as well as the FSP, targeted to the low-income population. Welfare reform and expansions in the Medicaid Program have brought more people into social service agencies. Growth in the number of AFDC recipients has increased FSP rolls.

Simplified applications and improved client services have improved access to the program. Increased outreach activities have encouraged participation. In some regions, there has been an increase in unemployment.

Some States and counties experiencing surges in food stamp participation are also experiencing increases in population. People migrate around the country in search of jobs and better opportunities. When their efforts are unsuccessful they find themselves in need of assistance.

Question: Is the average length of time a household is on the program changing?

Answer: We don't know if the average length of time a household is on the program is changing. Administrative data is not collected in a way that enables us to determine how long households stay on the FSP. We last examined the average length of time a household remained on the program in 1989, using data from 1980 through 1983. At that time, the average length of time for participation was 18 months.

We are working with the Bureau of the Census on analyses that may help answer these questions in the future. The Survey of Income and Program Participation is the first household survey that collects monthly income and participation in Federal and State assistance programs over time. This data may allow us to separate the effects of more people entering the program from more people staying longer in the program.

SPECIAL SUPPLEMENTAL FOOD PROGRAM for WOMEN, INFANTS and CHILDREN (WIC)
COST CONTAINMENT

Question: The 1991 budget provides for inflationary increases in the Women, Infants, and Children feeding program and estimates an increase in participation of about 100,000. Between 1989 and 1990, there was a 500,000 increase in participation.

To what extent was the 500,000 increase in participation for the Women, Infants, and Children feeding program attributable to cost containment measures employed by States in contracting for infant formula and other foods?

Answer: Almost two-thirds, over 300,000, of the increase in WIC participation in 1990 is attributable to cost containment measures such as infant formula rebates.

Question: Are all States now employing cost savings measures?

Answer: By the end of this fiscal year, all 51 geographic State agencies, including the District of Columbia, will have infant formula rebates or other cost containment systems in place. In addition, Guam, Puerto Rico, the Virgin Islands, and 30 Indian Agencies have cost containment systems. The remaining three Indian agencies have been granted waivers as they have demonstrated that because of their small size it would not be feasible to implement cost containment systems.

Question: Between 1989 and 1990, what portion of participation growth was attributable to the appropriation increase of $197 million?

Answer: Approximately one-third, almost 200,000, of the participation increase in 1990 is attributable to the increased appropriation. More than half of the appropriation increase was needed to support higher costs due to inflation and the administrative funding changes contained in P.L. 101-147, the WIC reauthorization legislation.

WIC ELIGIBILITY

Question: In your testimony, you mention that 100 percent of eligible infants and 90 percent of eligible pregnant women are now served by the WIC Program nationwide. How did you arrive at this conclusion, based on what data?

Answer: The most recent estimates of WIC eligibility found that in 1986, there were approximately 685,000 pregnant women and 1.1 million infants fully eligible to participate in the program. In August 1989, the latest month for which categorical participation data is available, 630,000 or 92 percent of eligible pregnant women received WIC services.

Over 1.3 million infants participated in WIC that same month. The infant participation exceeds the number estimated to be fully eligible for the program. This may be because, in practice, individual WIC screenings classify more infants as being at nutritional risk than can be estimated from national health survey data.

WIC PROGRAM COMPLIANCE

Question: Has FNS consulted with State WIC Directors about its plans to begin a Federal Review System for the WIC Program?

Answer: Federal reviews of local WIC operations are often included as part of Federal management evaluations. The Department acknowledges the critical importance of Federal oversight in monitoring program compliance in all nutrition programs. We are very pleased with the results of the recently implemented Federal Review System in the National School Lunch Program and are actively pursuing intensified compliance efforts in other programs at both the Food and Nutrition Service headquarters and the regional offices. State WIC directors have been kept informed of the need for improved oversight and monitoring of the WIC Program. Indeed, the Department is in constant communication with State directors regarding compliance, accountability, and other issues of mutual concern.

Question: What has been the reaction to the plans?

Answer: For several years we have been working to improve management oversight of the WIC vendor population. We have recently begun to focus attention on the accountability of WIC administrative funds and program certification. The methods to accomplish these improvements are developed in consultation with State WIC directors in an effort to achieve the desired results with minimal burden.

The Department has no plans for a separate Federal Review System in WIC which would parallel school lunch federal reviews. Rather we are integrating accountability awareness and standards into all aspects of program management at all levels of program administration. The need for increased accountability in what is now over a $2 billion federally funded program is well understood.

COMMODITY SUPPLEMENTAL FOOD PROGRAM
COST OF MILK

Question: What is the average cost per unit of evaporated milk versus an equivalent measure for nonfat dry milk?

Answer: Each 4-pound box of nonfat dry milk, when reconstituted, is equivalent to 27, 12-ounce cans of reconstituted evaporated milk. The average cost at existing price support levels per 4-pound unit of nonfat dry milk during the first quarter of Fiscal Year 1990 was $3.60; an equivalent quantity of evaporated milk would have cost approximately $9.16.

However, early in Fiscal Year 1990 nonfat dry milk was not available for purchase and evaporated milk was substituted. When nonfat dry milk was finally offered to the Department in response to our request for bids, we had only one offer at a price of $7.56 per box.

Question: How much did the purchase of evaporated milk cost the program above planned program costs last year?

Answer: The temporary increased utilization of evaporated milk in the Commodity Supplemental Food Program—CSFP—was limited to the period of October through December 1989 and was caused by insufficient supplies of nonfat dry milk available for purchase on the commercial market. For the first quarter of Fiscal Year 1990—October through December 1989, CSFP participants with the greatest nutritional needs were provided evaporated milk in lieu of nonfat dry milk.

During this period the Department spent approximately $2.4 million on evaporated milk compared to a projected expenditure of approximately $1.7 million.

The Agency expects to purchase sufficient supplies of nonfat dry milk to support current participation through Fiscal Year 1990; therefore, we do not expect to have to substitute evaporated milk for nonfat dry milk in the near future.

Question: Is evaporated milk still being used by CSFP in lieu of nonfat dry?

Answer: By April of this year CSFP State agencies will have ample supplies of nonfat dry milk for issuance to all participant categories.

It will no longer be necessary to issue evaporated milk in lieu of nonfat dry milk. In some CSFP agencies, the return to normal patterns of milk issuance was accomplished as early as February.

Question: What efforts to coordinate administrative decisions with project directors and to avoid confusion in decisions about available commodities, bonus commodities, shipment deadlines, and caseload are underway with CSFP?

Answer: Due to the sudden changes in market conditions affecting supplies of nonfat dry milk, there was insufficient time to coordinate with the various project directors on possible food options without running the risk of substantial disruptions in food shipments. The CSFP State agencies, however, were alerted on several occasions regarding the change in the availability of bonus commodities, particularly as these changes affected administrative reimbursement funding. In the future, FNS will continue to make all possible efforts to coordinate with CSFP project directors on these and all other matters affecting program operations. With respect to caseload allocations, assignments for Fiscal Year 1990 were accomplished strictly in accordance with program regulations, and CSFP agencies were informed accordingly by our regional offices.

The Administration's Farm Bill proposals will help in one important aspect of CSFP that has been adversely affected by changes in availability of food from the Commodity Credit Corporation--CCC. Our proposal would set administrative funding at 20 percent of the appropriated funds. This approach would provide certainty to CSFP managers about their administrative budget at the beginning of each fiscal year.

FOOD STAMP PROGRAM
ERROR LIABILITY COLLECTIONS

Question: The 1991 budget proposes to collect $100 million from States for their error rate liabilities. What is the total amount of error rate penalties collected in 1989?

Answer: Actual cash collections during Fiscal Year 1989 for Quality Control liabilities were as follows:

Alaska	$230,250
Arizona	25,308
Virgin Islands	644,652
Dist. of Columbia	235,823
Pennsylvania	303,641
Wyoming	62,918
TOTAL	$1,502,592

In addition to these actual cash collections, a settlement agreement was signed with New Mexico during Fiscal Year 1989 providing for repayment over an extended period. This agreement provides for an additional collection of $474,596.

Question: To date in 1990?

Answer: Actual cash collections during Fiscal Year 1990 to date are as follows:

Pennsylvania	$202,428

Pennsylvania will make additional payments of $101,213 during Fiscal Year 1990. Alaska, New Mexico and Arizona are also scheduled to make payments this year. In addition to this actual collection, a settlement agreement was signed with Vermont during Fiscal Year 1990 providing for repayment over an extended period. This agreement provides for an additional collection of $400,000. No payments are due under this agreement until Fiscal Year 1991.

Question: In total for the Food Stamp Program?

Answer: Total collections to date are $4,781,563. This amount includes $2,836,662 of actual cash collections and agreements to pay an additional $1,944,901 over an extended period of time.

Question: Is it realistic based on history to expect that $100 million will be collected in 1991?

Answer: Based on history, our expectations to collect $100 million are ambitious, but achievable. The Department is fully committed to pursue our collection efforts within the authority given by the Food Stamp Act. Moreover, we believe that it is important to send a strong signal to the States that the USDA will pursue vigorously any outstanding claims for high error rates. In fairness to States which have paid their debts, we believe we must pursue outstanding claims.

FOOD STAMP PROGRAM ADMINISTRATIVE COSTS

Question: The 1991 Budget includes an increase of almost $65 million for State administrative costs associated with the Food Stamp Program. Please provide the Committee with a detailed account of these administrative costs, compared to the same costs in 1989 and 1990.

Answer: Administrative cost grants are allocated to States for 75 percent of Automated Data Processing development costs, 75 percent of anti-fraud costs, and 50 percent of all other administrative costs associated with managing the program. The budget estimate for Fiscal Year 1991 is based on actual costs as reported by States for Fiscal Year 1989, estimated 1990 costs, plus a 5.4 percent increase for the anticipated effects of inflation. In addition, the 1991 estimate includes $8 million for anticipated quality control incentive payments. A table illustrating changes in State administrative costs for Fiscal Years 1989 through 1991 follows:

Food Stamp Program
State Administrative Expense
($000)

	FY 1989 Actual	FY 1990 Estimated	FY 1991 Estimated
State admin costs	996,869	1,066,432	1,124,019
Anti-fraud	60,790	69,291	73,033
ADP development cost	17,929	23,880	25,170
Incentive payments	986	6,000	8,000
Total	$1,076,574	$1,165,603	$1,230,222

EMPLOYMENT AND TRAINING

Question: What progress has been made with employment and training programs under the Food Stamp Program?

Answer: Since implementation on April 1, 1987, the Food Stamp Employment and Training--E&T--Program's number of participants has continued to grow. In the first 6 months of operation, the E&T Program served 446,000 non-exempt work registrants and volunteers. By Fiscal Year 1989, the number of participants served grew to 1.2 million food stamp recipients.

In Fiscal Year 1990, the State agencies plan to serve 1.4 million food stamp recipients.

In addition to the growth in participation, there has been growth in the type of service provided by E&T Programs. In Fiscal Year 1987 most State agencies offered job search and job search training. More intensive services are now being provided to move the hard-to-serve long-term food stamp recipient from dependency to self-sufficiency. In Fiscal Year 1989, more than 25 percent of the E&T participants were served by more intensive components, such as basic education, vocational training, on-the-job training, and Job Training Partnership Act Programs. We anticipate that this trend will continue in Fiscal Year 1990.

Question: Are these programs offering retraining and skills development or are they most effective at job placement activities?

Answer: In Fiscal Year 1989, more food stamp recipients participated in a job search activity than any other E&T Program activity. During Fiscal Year 1989, over 713,000 work ready participants were placed in a job search component. Approximately

93,000 received additional training to improve their job seeking and retention skills prior to participation in a job search activity.

The remaining participants required more intensive education and skills training to improve their ability to obtain regular employment. Over 66,000 food stamp recipients received basic educational services such as itinerary training, English as a Second Language, and training to achieve high school equivalency. Another 26,000 participants were enrolled in vocational training programs in such fields as automotive mechanics, computer programming, and secretarial skills. An additional 21,000 participants received vocational training through programs established by the Job Training Partnership Act. Over 63,000 food stamp recipients participated in programs providing work experience through on-the-job training. Another 46,000 recipients received much needed work experience and basic work skills training through workfare programs. Over 52,000 food stamp recipients participated in other E&T components such as programs to foster self employment enterprises and programs to move individuals from part-time to full-time employment.

Question: What evaluations have been completed to confirm whether these programs have been effective?

Answer: The evaluation of the Food Stamp E&T is nearing completion and the results will be available early this summer. This is a national study of E&T comprising 53 sites and over 13,000 food stamp work registrants across the country. The final report on this evaluation will include:

- descriptions of how E&T is implemented in various settings and who participates in the program;
- an assessment of the effects of E&T on participants' employment, earnings, and food stamp benefit receipt;
- an assessment of the costs of operating E&T; and,
- an estimate of the cost effectiveness of the program.

Question: What effect have these programs had on household participation in the Food Stamp Program?

Answer: An assessment of the effect of the Food Stamp E&T Program on household participation is not available at this time. The final report—available early this summer—on the evaluation of E&T will include findings on the effect of E&T on participation in the FSP.

FOOD DONATIONS PROGRAMS FOR SELECTED GROUPS

Question: The 1990 budget requested that the Commodity Supplemental Food Program be merged with the Special Supplemental Food Program for Women, Infants and Children. In 1991, the budget proposes combining CSFP with other food donation programs for selected groups, such as the elderly, soup kitchens, and American Indians.

Why has the Department shifted its policy with respect to CSFP?

Answer: The Department proposes to place CSFP with the food donation programs account to combine programs with benefits that are based on the purchase or donation of commodities. This is similar to the combined accounts in the Child Nutrition Program. While the fiscal integrity of each program is maintained, combining the account provides some flexibility to meet individual program needs by minor shifts of funds from one program to another when necessary.

Question: What are the similarities and differences between CSFP and WIC that made this policy change favorable?

Answer: WIC and the CSFP share the same target population of women, infants and children, but there is a structural difference in the way the two programs provide benefits to participants. CSFP participants receive a food package made up of foods primarily purchased by the Department. When surplus foods are available, the Department also provides bonus commodities to CSFP. WIC participants receive vouchers used to purchase foods on the retail market. Last year's proposal would have given States the flexibility in certain instances to move funds between the two programs.

By placing the CSFP in the food donation programs account, we can achieve some flexibility to make minor shifts of funds among these programs while maintaining each program's fiscal integrity.

Question: How has this perspective changed between 1990 and 1991?

Answer: Last year we proposed to combine WIC and CSFP into one account in order to serve as many eligible women, infants and children as we could through both programs. We are still committed to that goal, but will rely on the caseload management processes of both programs to accomplish it.

However, we think that placing CSFP with other food distribution programs that rely on Federal purchase and donation of participant benefits could have some advantages by providing the Department with flexibility to make minor shifts of funds between programs.

Question: What are the similarities and differences between CSFP and the selected groups food donation programs that make this policy change most appealing?

Answer: These programs have different target populations, but CSFP and the food donation programs for selected groups share the similarity that benefits are based on commodities which are either purchased by the Department or secured as donations from CCC inventories. External market conditions, especially large or limited surpluses, affect the commodity programs in similar ways. Combining these programs into one account may make it easier to respond to program needs.

COMMODITY SUPPLEMENTAL FOOD PROGRAM

Question: The 1991 budget proposes a net reduction of $2 million in the Commodity Supplemental Food Program based on assumptions concerning donated commodities. Will FNS be required to reimburse the Commodity Credit Corporation for commodities donated to Commodity Supplemental Food Program packages?

Answer: Our Fiscal Year 1991 budget estimates do not assume that FNS will reimburse the CCC for commodities donated to CSFP. The 1991 budget assumes that the CCC will resume donation of dairy products at no cost to the program.

Question: Will there be any carryover funds available from 1990 to 1991 for CSFP?

Answer: We do not expect to carry any funds forward from Fiscal Year 1990 to 1991.

Question: Is there any guarantee that various food package commodities will be available from the CCC in 1991?

Answer: No, there is no guarantee at this time that any particular food package commodity will be available from the CCC in Fiscal Year 1991. This will depend on whether producers find it necessary to sell commodities to CCC at price support levels. However, we believe that the Department will acquire sufficient amounts of nonfat dry milk under price support authority to ensure adequate supplies to CSFP in Fiscal Year 1991.

Question: Will bonus commodities be available?

Answer: We do not know with certainty at this time whether bonus commodities will be available in Fiscal Year 1991 for CSFP.

Question: What kind and in what amount?

Answer: We anticipate that butter, honey, and cornmeal may be available in Fiscal Year 1991; however, this cannot be guaranteed. It is less likely that cheese will be available to the CSFP as a bonus item.

FOOD STAMP PROGRAM
NUTRITION ASSISTANCE PROGRAM FOR PUERTO RICO

Question: The 1991 budget proposes transfer of the Nutrition Assistance Program for Puerto Rico to the Department of Health and Human Services, with a recommended appropriation of $825 million. Since authorization of the Puerto Rico Nutrition Assistance Program expires at the end of 1990, am I correct in concluding that no funding is included in the 1991 FNS budget for the program?

Answer: You are correct. The FNS budget contains no funding request for this program. Funding is included in the Department of Health and Human Services--DHHS--budget request for a new Fiscal Assistance Program for Puerto Rico.

Question: In what ways is the Food and Nutrition Service better qualified to administer the Puerto Rico NAP than the Department of Health and Human Services?

Answer: The Nutrition Assistance Program requires little Federal administration since it is a fixed grant and Puerto Rico writes the rules for its use. The Administration believes that consolidating administrative responsibility for grants to Puerto Rico in one Federal agency will facilitate administration of the grant while concurrently providing broad authority to Puerto Rico to tailor assistance to low-income families and individuals under the supervision of only one Federal agency.

Question: If funding were reduced from the current level of $936 million to $825 million, what would be the impact on participation and benefits?

Answer: The proposal would establish a broad-based assistance program for Puerto Rico, not just a nutrition assistance program, and the Commonwealth is given extensive flexibility in tailoring the program to the needs of its low income households. DHHS is, as we understand it, working on the details of this program. At this time, we cannot say what the proposed funding level will provide.

FOOD PROGRAM ADMINISTRATION

Question: The 1991 appropriation includes an addition of over $3 million for administrative expenses associated with various food programs. Why are the costs of administering the food programs separately designated in this account?

Answer: The Food Program Administration account was established to consolidate administrative costs of operating the various FNS programs. This structure, compared to providing line items in each program account, better identifies the total work effort, the distribution of effort, and the costs of administering programs. The Agency is currently designing a Work Measurement System to improve the ability to identify staff resources and costs by program.

Question: Why aren't they absorbed by the larger account to which they apply?

Answer: Prior to Fiscal Year 1978, the administrative expenses of the Agency were distributed among six program appropriations. In Fiscal Year 1978 a single account was established to consolidate operating expenses into one appropriation to enhance the ability to monitor and control Federal administrative costs required to manage the various food programs.

SPECIAL SUPPLEMENTAL FOOD PROGRAM for WOMEN, INFANTS, AND CHILDREN (WIC)

STUDIES

Question: Since release of the 1984 National WIC Evaluation, there has been continuing interest in having a longitudinal study conducted involving infants and children. This Committee has repeatedly requested that a follow-up be conducted and has been told by the Department that recontacting the evaluation participants would be cost prohibitive, if not impossible. Under Administrator Kondratas, it was suggested that a new long-term study be initiated. Is it true that the research design for the new long-term study on WIC children is expected to cost between $16 million and $22 million?

Answer: The design developed by the University of North Carolina--UNC--at Chapel Hill in the FNS' design feasibility study is estimated to cost between $16 and $22 million. This estimate was based on the direct cost estimate included by UNC in their final report and FNS' estimate of the indirect cost of conducting such a study under contract.

Question: How much more is this than the original WIC evaluation?

Answer: The original WIC evaluation cost $5.9 million. Thus, this study would cost between $10 and $16 million more than the original study.

Question: How much more expensive is this than if a follow-up study of the 1984 evaluation had been conducted immediately upon publication of the evaluation at the end of 1984?

Answer: The principal investigator for the original WIC evaluation estimated that a follow-up of the children in 1984 would cost about $3 million, or about $13 to $19 million less than the proposed study. However, these are very different studies. In the current study, the questions on child health and development have been expanded and new research questions have been added in response to congressional interest. More importantly, the follow-up study proposed in 1984 would not have provided definitive answers on the impact of the WIC Program on children and thus would have been an unwise investment of research funds. As we understand it, the results would not have been valid because there were too few children from the original study that could have been included in the follow-up. In addition, the results would have been biased because the non-WIC study group was much better off than the WIC group, on such critical factors as income and level of maternal education.

Question: What quicker and lower cost alternatives has FNS considered for providing Congress with reliable long-term information on WIC's impact on children?

Answer: FNS has undertaken several efforts to identify the most technically sound, cost-effective and practically feasible research design possible. The $16 to $22 million design developed by the UNC at Chapel Hill was the direct result of a national competition conducted by FNS. Based on the concerns that FNS has with the UNC design--including its cost--we undertook a second national competition both to field test the UNC design and to develop and field test an alternative design which addresses our concerns. As part of the field test, we will be looking for ways to expedite study implementation and reduce the cost, without, of course, compromising study quality.

As part of our child impact research, FNS has also explored combining the research with a pre-existing survey conducted by the National Center for Health Statistics. In addition, we have solicited the assistance of professional organizations--such as the National Association of WIC Directors and the Association for Vital Records and Health Statistics--in finding the best possible way to study questions of WIC's impact on child health and development.

Question: Have any State health departments initiated such studies or surveys? If so, which States and what have they found?

Answer: To date, we have not found any such studies or surveys. It is unlikely that there would be any that we have not uncovered since we have discussed our child impact efforts with public advocacy groups, national organizations whose focus relates to WIC or maternal and child health research, and researchers in other Federal agencies and universities.

Question: The 1990 budget requested a temporary increase in the ceiling on WIC research spending. Does FNS expect to require additional research funding above this ceiling?

Answer: For Fiscal Years 1990 and 1991, we will not need additional research funds. However, depending on the outcome of the WIC Child Impact Feasibility Test, we may need additional funds starting in Fiscal Year 1992. If we decide to fully implement the UNC research design, we will need additional funds, but that decision will not be made until Fiscal Year 1991.

Question: What studies are currently underway? Please list the duration, status, cost and purpose of such studies.

Answer: There are currently 16 WIC studies underway. Listed below is the duration, status, cost and purpose of each study.

- WIC Participant and Program Characteristics (PC-88)

Description: The purpose of this study is to collect data for the biennial report to Congress that will report data for 1988, and to develop the system by which FNS and State and local WIC agencies will generate the future mandated biennial reports on WIC participant and program characteristics.

Status: Final report currently in Agency clearance.

Expected Completion Date: April 1990

Cumulative through Fiscal Year 1989: $1,370,385

Total Cost: $1,458,781

- WIC Participant and Program Characteristics 1990 and 1992

Description: This study responds to the Congressional requirement--through P.L. 99-500--for biennial descriptions of State and local agencies operating the WIC Program and a national description of persons served by the WIC Program.

Status: Actual field work for the 1990 study is currently in planning stages. Minimum data set specifications for the 1992 study will soon be provided to all States.

Expected Completion Date: 1990 Survey - 1991
1992 Survey - Late 1993

Cumulative through Fiscal Year 1989: $340,000

Total Cost: $1,157,861

- WIC Benefit Targeting Study

Description: This study will identify current practices used to target WIC benefits; demonstrate a variety of practices in selected sites to evaluate the transferability, feasibility and effectiveness of these practices; and develop materials on the practices for dissemination to State and local agencies.

Status: Final report in Agency clearance.

Expected Completion Date: April 1990

Cumulative through Fiscal Year 1989: $591,273

Total Cost: $591,273

- WIC Farmer's Market Evaluation

Description: The purpose of this study is to assess how well the mandated WIC Farmer's Market Demonstrations provide resources to WIC participants in the form of fresh unprepared foods--such as fruits and vegetables--from farmers' markets; and to expand overall awareness and use of farmers' markets. The evaluation will also review the financial management and accountability of the projects.

Status: A report on Phase One of the study is due to FNS by March of 1990.

Expected Completion Date: April 1991

Cumulative through Fiscal Year 1989: $88,309

Total Cost: Phase One - $ 88,309
Phase Two - $275,000

- Wayne County Smoking Cessation Projects

Description: These projects will assess the effectiveness of two different smoking reduction programs directed at low-income women of childbearing age and will examine the relative costs and benefits of the programs to the county health department.

Status: Project reports are expected by March 1990.

Expected Completion Date: June 1990

Cumulative through Fiscal Year 1989: $315,430

Total Cost: $315,430

- Illinois WIC Competitive Vendor Selection Pilot Project

Description: The objectives of this study are to develop, test and evaluate a competitive selection system of vendor management in the WIC Program. This project will also train FNS and WIC State agency staff in competitive selection vendor management methodology.

Status: The Illinois project is currently on hold pending legal appeals by vendors.

Expected Completion Date: See above.

Cumulative through Fiscal Year 1989: $190,748--FNS contribution

Total Cost: $190,748

- Centers for Disease Control Smoking Cessation Project

Description: The Smoking Cessation in Pregnancy Project is a cooperative effort of FNS and the Centers for Disease Control--CDC--to demonstrate the effectiveness of WIC and prenatal clinic smoking cessations in three States--Colorado, Missouri, and Maryland.

Status: CDC is currently analyzing preliminary data.

Expected Completion Date: September 1991

Cumulative through Fiscal Year 1989: $800,000--FNS contribution

Total Cost: $800,000

- WIC Analytic Research Projects

Description: The general objective of this study is to conduct analyses using extant data bases that may be useful in improving policy and/or program operations. The study is intended to expand present knowledge about program and participant characteristics and the effectiveness of the WIC Program.

Status: Continuous analysis projects.

Expected Completion Date: Various due dates for task reports. Contract ends June 1990.

Cumulative through Fiscal Year 1989: $721,276

Total Cost: $721,276

- WIC-Medicaid Cost/Benefit Study

Description: Congress has directed the Secretary of Agriculture to conduct a study of the savings of State and Federal Medicaid costs and other publicly-financed medical costs for newborn infants and their mothers during the first 60 days after birth as a consequence of the mother's prenatal WIC participation. Five States have agreed to participate in the study.

Status: The study has completed data collection and matching in two States, Texas and Minnesota. Preliminary results from these States will be available soon. Work is continuing on matching the program data files for Florida, North Carolina, and South Carolina.

Expected Completion Date: October 1990

Cumulative through Fiscal Year 1989: $1,029,035

Total Cost: $1,182,000

- WIC Breastfeeding Promotion Study & Demonstration

Description: The objectives of this study are to identify effective breastfeeding promotion strategies and evaluate their potential use in the WIC Program; demonstrate breastfeeding education and promotion models in selected WIC sites; and provide technical assistance to State and local WIC agencies on effective breastfeeding promotion models.

Status: A compendium of breastfeeding promotion approaches has been released. Seven local WIC sites were selected to participate in one-year demonstrations of breastfeeding promotion models which are now complete. Demonstration site reports are being used as the basis for the study's final report and technical assistance to WIC State agencies.

Expected Completion Date: July 1990

Cumulative through Fiscal Year 1989: $569,385

Total Cost: $569,385

- Study of Appropriate Methods for Drug Abuse Education in WIC

Description: This congressionally-mandated study seeks to identify appropriate methods of drug abuse education for WIC participants to inform the Department in response to WIC's drug abuse information and referral responsibilities.

Status: Study report was submitted to Congress in January 1990. Contractors are completing work on the resource manual to be delivered to States.

Expected Completion Date: September 1990

Cumulative through Fiscal Year 1989: $125,435

Total Cost: $125,435

- WIC Vendor Issues Study

Description: This study seeks to estimate, on a national basis, the extent and nature of vendor abuse in the WIC Program and the relationship between State vendor operations and detected vendor abuse. Study findings will provide the Agency with information to facilitate efficient vendor management in WIC.

Status: The contractor has visited State vendor operations and held discussions with key individuals in vendor management quality control. A preliminary research design plan, now under review, has been developed to address vendor sampling, error-rate estimation and compliance-buy issues.

Expected Completion Date: October 1991

Cumulative through Fiscal Year 1989: $112,251

Total Cost: $1,195,212

- WIC Child Impact Study: Field Test

Description: This study will simultaneously field test two research designs to study the impact of WIC on infants and children. In addition to testing the designs, this effort will test data collection measures and procedures, and obtain preliminary data on the effects of WIC on children. Data from the field test will be used in deciding how to proceed with the implementation of a larger-scale WIC Child Impact Study.

Status: The Study Plans and data collection instruments have been drafted. The first Advisory Panel meeting was held in early February.

Expected Completion Date: October 1991

Cumulative through Fiscal Year 1989: $652,151

Total Cost: $1,290,000

- WIC Vendor Management Study

Description: This project will identify and describe current vendor management practices in 48 States and the District of Columbia.

Status: The final report is being drafted.

Expected Completion Date: August 1990

Cumulative through Fiscal Year 1989: $749,405

Total Cost: $749,405

- WIC Income Verification Study

Description: The purpose of this study is two-fold: to identify and analyze current WIC income certification procedures; and to determine the national WIC income misreporting rate based on primary data collection.

Status: Final report under Agency review.

Expected Completion Date: April 1990

Cumulative through Fiscal Year 1989: $972,593

Total Cost: $972,593

- 1988 National Maternal and Infant Health Survey and 1990 Longitudinal Follow-up

Description: FNS is one of several co-sponsors of this DHHS survey, which will allow us to look at WIC in the context of other health and medical information such as low birth weight status and infant mortality. The 1988 survey and the 1990 follow-up are being conducted by the National Center for Health Statistics.

Status: For the 1988 Survey, a preliminary data tape of 4,700 maternal interviews was made available in January 1990. The 1990 Survey will be pretested in early 1990 and fully implemented this October.

Expected Completion Date: 1988 Survey - mid 1991
1990 Survey - mid 1992

Cumulative through Fiscal Year 1989: $350,000

Total Cost: $950,000

QUESTIONS SUBMITTED BY SENATOR COCHRAN

NATIONAL SCHOOL LUNCH PROGRAM

Question: Last week, I had an opportunity to talk with some of the school lunch managers from my State of Mississippi. They expressed concern regarding the budget proposal which would eliminate cash and commodity subsidies for some free or reduced-price meals--section 4 funding/reimbursement of 14 cents per meal.

Another school lunch proposal would create a fourth income category that would require school administrators to document and verify the household income of a vast majority of all U.S. households with children in school.

If school districts can no longer participate in the school lunch program because of the proposed elimination of cash and commodity subsidies, has any consideration or thought been given to how benefits would be provided to the students in the free/reduced price category in these school districts?

Answer: The budget proposal will not exclude any schools or school districts from participating in the program. The proposal for school lunch affects only households above 350 percent of poverty. In fact, the proposal would increase subsidies for reduced price meals resulting in a 50 percent reduction in school lunch costs for working poor families.

Predictions of school dropout at the time of the Omnibus Budget Reconciliation Act of 1981—OBRA—overstated the impact of a subsidy reduction to paid children. After OBRA about 1,500 schools dropped the program. Of these, approximately 500 were private schools excluded because of high tuition. The other 1,000 were predominantly small and affluent. In a follow-up survey some schools reported that they continued to offer free meals to their low-income students.

We do not anticipate that this proposal will cause many schools to drop the program. Schools most affected by the proposal—those serving 80 percent or more of their meals to children from households with incomes above 350 percent of poverty—would continue to receive over 80 percent of their total revenues and subsidies even after accounting for decreased participation, due to higher prices. This occurs because USDA subsidies for paid meals are a small proportion of total subsidies and revenues received by schools. It is unlikely that these schools would drop the program.

SCHOOL FOOD SERVICE MANAGEMENT INSTITUTE

Question: The Child Nutrition and WIC Amendments of 1989 (P.L. 101-147) authorized the creation of the School Food Service Management Institute. The goal of the Institute is to assist schools throughout the country in providing high quality, nutritious and cost-effective meal service to children. $500,000 was appropriated last year to establish this project.

What is the status of the Institute at this time?

Answer: The Agency is currently in the final stage of negotiations with representatives from the University of Mississippi. The official response from the University of Mississippi to the Request for Proposal has been reviewed, and the Office of General Counsel has been asked to advise on the issue of Mississippi's State statute of "sovereign immunity" as related to potential property damage or personal injury liability cases incurred in the performance of the Cooperative Agreement. With no additional technical points to be resolved, the Cooperative Agreement is expected to be signed by mid-April 1990.

Question: The authorization provided $4 million for Fiscal Year 1991. Will the Institute be ready to proceed with Phase II and to begin developing applied training activities?

Answer: The $500,000 available for obligation in Fiscal Year 1990 provides the funds to establish the basic infra-structure of the Institute. Those funds will be available for expenditure through most of Fiscal Year 1991. At that point the Institute should be ready to proceed with Phase II and begin developing applied training activities.

BONUS COMMODITIES

For the past several years, USDA bonus commodities have been a very significant part of the Federal support for child nutrition and other USDA nutrition assistance programs. For example, in 1987 schools received $442 million in bonus commodities; in 1988 bonus commodities were reduced to $372 million; in school year 1989 bonus commodities were further reduced--$324 million. In the current school year, these commodities will drop to $125 million, for a decrease of $300 million from 1987. In addition, $100 million of the $125 in 1990 will be just one commodity--butter.

Question: Have any studies been conducted to determine the effect of this decline in bonus commodities on local school districts and what might be done to offset or mitigate the loss in Federal support as a result of the decline in bonus commodities in schools?

Answer: The steady reduction in the availability of bonus commodities is the result of successful changes in agricultural support policy directed by the Farm Bill of 1985 and an aggressive bonus distribution policy. We have not seen any ill effects on participation, which has increased continually since 1985.

While bonus commodities are an extra benefit to the program, the Department cannot count on their availability. By the same token, schools should not plan to have bonus commodities each year, and should not expect that they will be a continuing source of support. Bonus commodities are not part of schools' legislated commodity support or meal service cash subsidies.

Schools may need to be innovative in adapting to shifts in bonus commodities. Menus or food purchases may need to change as bonus commodities fluctuate. There is every indication that schools have adapted to changes in bonus commodities in the past. If meal quality suffered or prices rose because of decreased bonus commodities, we would expect to see program participation drop. While no formal studies of this issue have been conducted, measures of program activity--such as the number of schools in the National School Lunch Program and student participation--have increased since 1985, while bonus levels have shifted.

FOOD STAMP PROGRAM

Question: It is my understanding that because of increased participation in the Food Stamp Program in recent months, the budget requests a supplemental in the form of providing "such sums as may be necessary" to fully fund benefit payments to individuals. What is the critical date?

Answer: The projected shortfall is equivalent to less than one month's benefits. In order to avoid having to notify States of a reduction in benefits, the supplemental appropriations would have to be in place before the end of June.

Question: Other than higher-than-anticipated participation levels, what has contributed to the need for increased funding?

Answer: Increased participation is the primary contributor to the need for additional funding. However, the Food Stamp Program--

FSP—is also experiencing cost increases in the average benefit per person. Increasing participation also causes cost increases for additional coupons and coupon handling and in administrative costs associated with a higher caseload. These uncertainties are the primary reason that we propose to have an open-ended appropriation for the FSP, like those for Aid to Families with Dependent Children--AFDC--and Medicaid.

Question: Based on this information, what do you anticipate will be required for Fiscal Year 1991?

Answer: We have requested that Congress provide a base appropriation of $15.5 billion, and a $500 million "cushion" above that level for unanticipated benefit expenses. We are monitoring program cost reports carefully but it is difficult to provide a precise estimate at this time. For this reason, we have requested indefinite spending authority for the last 2 months of Fiscal Year 1991 in order to assure payment of benefits as required by law. We will formally review all of the available data which may affect the cost of the FSP next year as part of the July mid-session review.

NUTRITION ASSISTANCE FOR PUERTO RICO

Question: The budget proposes a reduction of $112 million in the Nutrition Assistance for Puerto Rico block grant and a transfer from the jurisdiction of USDA to the Department of Health and Human Services. It is my understanding that the number of eligible participants for nutritional assistance in Puerto Rico has not declined. On what basis was the reduction in nutrition assistance to Puerto Rico made?

Answer: The current block grant structure of the Nutrition Assistance Program gives the Commonwealth flexibility to create a program specifically tailored to the needs of its low-income families. The result is a very different program from the national FSP. Since the block grant was established in 1982, Puerto Rico has experienced significant economic gains. The unemployment rate dropped from 23 percent in 1983 to 13.6 percent in December 1989--a 41 percent reduction, while the population remained fairly constant. Food prices increased by roughly 10 percent from 1982 to 1988 while average monthly benefits per person increased by roughly 19 percent during the same period. As economic conditions continue to improve, and as Puerto Rico enjoys added prosperity from a lower unemployment rate, fewer families may need food assistance.

Question: A document prepared by the Office of the Budget of HHS states that the proposed reduction and the departmental transfer "will facilitate transition to any new political status Puerto Rico may choose..." Can you explain the rationale behind the linkage between status and nutrition assistance?

Answer: This proposal would consolidate administration and policy oversight of the specialized programs of public assistance for Puerto Rico—including AFDC and Medicaid—in the Department of Health and Human Services. This consolidation creates a single point of contact between Puerto Rico and the Federal Government for low-income programs.

QUESTIONS SUBMITTED BY SENATOR GRASSLEY

NATIONAL SCHOOL LUNCH PROGRAM
PROPOSED LEGISLATION

Question: In your testimony you propose to eliminate the Section 4 subsidy for school lunch program participants with incomes over 350 percent of the poverty level. I can appreciate the endeavor to save money by ending hot lunch assistance to affluent families. It seems to me, however, that section 4 subsidies are now directed to schools, not to individuals. Further, schools do not now collect information regarding income levels of their residents. Schools would not only have to identify families' income, but would have to track their participation in the hot lunch program.

Has the Department determined how schools should collect this information, in order to accurately meet the requirement to suspend the subsidy for those families with incomes over 350 percent of the poverty level?

Answer: The mechanism for collecting information about households is already in place. The authorizing legislation for the program and current regulations require that an application form be distributed to households of all children enrolled in a school. Those households with approved applications will be eligible for subsidized meals.

Question: Has the Department calculated what additional costs schools would incur in order to collect the information?

Answer: We do not expect that there would be additional costs to schools to collect the information since they are already required to distribute program information and applications to all households of children at the school. However, schools would incur some additional costs associated with the review and approval of applications.

Question: Has the Department determined what would be the level of drop-off in the hot lunch program by eliminating this subsidy, assuming that schools would have to increase their costs to make up for the loss of this subsidy? I ask this question because the Iowa School Food Service Association estimates that participation in the hot lunch program is reduced by 1/2 percent for each 1 cent increase in price.

Answer: The size of any decreases in participation among non-needy children would depend on how much of the lower Federal subsidy was passed through to students in terms of higher prices. If subsidy reductions were passed on directly as price increases, the overall change in participation would be about 4 percent.

The participation decrease is relatively small because only one-in-five children face a price increase. We anticipate there will be increased participation by children from families between 130 and 185 percent of poverty because the cost of their lunch will be reduced from 40 cents to 20 cents. Children who currently receive free lunch will not be affected by this proposal.

Question: If the Department insists on pursuing this proposal, have you considered other means to achieve the same purpose of reducing assistance for affluent families, without requiring schools to obtain an actual daily nose count of the income levels of hot lunch participants?

Answer: The Administration considered a number of options to target benefits. This proposal has several advantages: it reduces benefits to upper-income children without reducing benefits to lower-income children and it accomplishes it without altering the current structure of the program. Under current law, schools are required to take daily counts by meals by price status—free, reduced price and paid—without overtly identifying the income status of the child.

The Department is examining ways to obtain an accurate meal claim without counting meals by type each day. The Child Nutrition Reauthorization and WIC Amendments of 1989 requires the Department to operate a series of pilot projects to test alternative counting methods. Some of these projects will begin in September 1990.

AUTOMATION OF FOOD STAMP PROGRAM

Question: I would like to discuss the automation of the Food Stamp Program, for which the Federal Government provides substantial assistance to States. How much of the food stamp budget is expended for automation of State delivery systems?

Answer: In Fiscal Year 1989, the Department provided $17.9 million to 34 States for the development of automated data processing systems for the Food Stamp Program—FSP. This figure includes both 50 percent and 75 percent Federal funding. This amount represents approximately 1.5 percent of total Federal funding provided to the States for the administration of the FSP for Fiscal Year 1989.

Question: How many States are now automated or in the process of becoming automated?

Answer: Our analysis indicates that 48 State agencies are implementing or have implemented automated functions to improve program management and services to recipients. The remaining State agencies are actively planning some type of automation.

Question: What is the level of Federal assistance to each State seeking automation?

Answer: The first aspect of Federal assistance is that of funding. The Food and Nutrition Service—FNS—may provide enhanced funding at the 75 percent level for the development costs of food stamp automated systems that meet program requirements. FNS also funds the development costs of automated systems not eligible for the enhanced rate at the 50 percent level. State costs to operate food stamp automated systems are funded at the 50 percent level.

The second aspect of Federal assistance is that of technical and program assistance. Such assistance is achieved by establishing and maintaining open lines of communication between FNS and the State agencies throughout the planning and implementation phases of the automated project. In addition, as a State proceeds through the process, various documents are reviewed by FNS from the standpoint of strengthening design, identifying a possible system for transfer to or from another State, and identifying high risk areas involved in system design and development.

Question: What has been the benefit of automation in those States which have automated Food Stamp Programs up and running?

Answer: State and local officials working with these systems believe that automated systems improve program administration by facilitating the tasks of application processing and caseload maintenance, notifying recipients of determination and changes in their individual cases, and implementing and alerting recipients to mass changes brought about by changes in the law.

In addition to these improvements, which basically relate to recipient services, States also have experienced program management enhancements through automation. For example, automation has provided a focal point in the effort to deter fraud and reduce errors, particularly in the eligibility determination process. Additionally, performance by employees is more easily tracked through automated systems and the production of program reports of all kinds has been greatly improved. There are also some indications to support the expectation of welfare officials that food stamp automation will result in a need for fewer non-supervisory personnel.

However, the General Accounting Office--GAO--has found that these systems do not give as many benefits as States project. GAO recommends that all automated data processing projects be funded at the normal 50 percent rate.

Question: Has automation met the expectations of the Department?

Answer: The expectation of the Department concerning automation was that the States provide more efficient and effective administration of the FSP. We believe that the automated systems assist State agencies in providing more timely service to recipients as well as improving the management of the program. For example, in properly designed systems, policy changes and the issuance of benefits have been handled faster and more efficiently when compared to manual systems used previously.

Question: Where would you make improvements?

Answer: FNS has developed new regulations which will become effective May 8, 1990 to strengthen the requirements for Federal matching of the costs associated with the planning, design, development, acquisition, or installation of an automated food stamp system. These regulations emphasize the need for States to enhance planning for developmental projects. By encouraging such planning, we believe we are increasing the likelihood of automation projects meeting the present and anticipated needs of the program and doing so at the most reasonable cost possible.

Question: Has the Department examined the prospective benefits of utilizing Federal standards for automated programs for those States which receive Federal funding, similar to the Federal standards which I understand are successfully utilized for the Medicaid Program?

Answer: Yes, the Department has examined this issue. We support improved program performance and support automation as a means to program excellence. We will continue to look at the experience gained from Medicaid's use of automation standards for possible application to the FSP.

We have tools in place to ensure effective program performance including authority to require automation where insufficient automation prevents effective performance. We are able to ensure effective performance through monitoring performance, providing incentives for system development, disallowing funds for administrative failures and enforcing the liability provisions of our quality control system.

HUMAN NUTRITION INFORMATION SERVICE

QUESTIONS SUBMITTED BY SENATOR BURDICK

Question: The Continuing Survey of Food Intakes by Individuals is a survey of dietary intakes of individuals based on recall. Information collected is used in the formulation of dietary guidelines for the general population. In what publications and for what purposes has data from the Continuing Survey of Food Intakes by Individuals been used?

Answer: The Continuing Survey of Food Intakes by Individuals (CSFII) is a major source of data for the National Nutrition Monitoring System. These data were featured prominently in the second report to Congress on nutrition monitoring, Nutrition Monitoring in the United States: An Update Report on Nutrition Monitoring. In addition, these data have been used in numerous reports, datasets, articles, and presentations. Among the purposes for which data from the CSFII have been used are the following:

- to provide benchmark data on the food and nutrient intakes of the population and to assess trends over time,
- to monitor the nutritional quality of diets,
- to determine food consumption patterns and nutrient intake of populations and subgroups,
- to identify populations at nutritional risk for possible intervention,
- to develop food guidance materials that reflect food consumption practices and meet nutritional criteria,
- to examine the impacts of food guidance and food programs,
- to identify socioeconomic factors associated with dietary quality,
- to study the relationship between eating patterns and dietary quality, and
- to show the dietary change necessary to meet dietary recommendations.

Information on publications of CSFII data follows.

REPORTS, DATASETS, ARTICLES, AND PRESENTATIONS
from the
CONTINUING SURVEY OF FOOD INTAKES BY INDIVIDUALS
U.S. Department of Agriculture

I. STATISTICAL REPORTS from the CONTINUING SURVEY OF FOOD INTAKES BY INDIVIDUALS

1985 Series

Report No. 85-1: Women 19-50 Years and Their Children 1-5 Years, 1 Day, 1985. Issued November, 1985.
Report No. 85-2: Low-Income Women 19-50 Years and Their Children 1-5 Years, 1 Day, 1985. Issued August, 1986.
Report No. 85-3: Men 19-50 Years, 1 Day, 1985. Issued November 1986.
Report No. 85-4: Women 19-50 Years and Their Children 1-5 Years, 4 Days, 1985. Issued August 1987.
Report No. 85-5: Low-Income Women 19-50 Years and Their Children 1-5 Years, 4 Days, 1985. Issued March, 1988.

1986 Series

Report No. 86-1: Women 19-50 Years and Their Children 1-5 Years, 1 Day, 1986. Issued January, 1987.
Report No. 86-2: Low-Income Women 19-50 Years and Their Children 1-5 Years, 1 Day, 1986. Issued april, 1987.
Report No. 86-3: Women 19-50 Years and Their Children 1-5 Years, 4 Days, 1986. Issued September, 1988.
Report No. 86-4: Low-Income Women 19-50 Years and Their Children 1-5 Years, 4 Days, 1986. Issued January, 1989.

II. ADMINISTRATIVE REPORTS:

HNIS(Adm.) 382. Research on Survey Methodology. Proceedings of a symposium held at the 71st Annual Meeting of the Federation of American Societies for Experimental Biology, April 1, 1987. 77p.

HNIS(Adm.) 385. Analysis of Nonresponse to the 1986 Continuing Survey of Food Intakes by Individuals, by C. Tuszynski and L. Roidt. 1989.

HNIS(Adm.) 378. Machine-Readable Data Sets on Composition of Foods and Results from Food Consumption Surveys. 1989.

III. CSFII DATASETS AND MICROFICHE

All datasets include the following: a description of the survey methodology; dataset characteristics and format; control counts for selected variables; food and nutrient intake data; a 51-character food description file; and a manual of food codes used for translating food intakes into nutrient intakes. The microfiche that comes with each data set contains copies of the survey instruments (interviewer's instructions manual, screening forms and questionnaires, and a food instruction booklet). The microfiche may be ordered separately--it includes all the material above except for the food and nutrient intake data. Datasets are available from the National Technical Information Service.

	Dataset	Accession Number	Cost
CSFII 85-1	Women 19 to 50 Years and Their Children 1 to 5 Years, 1 Day, 1985		
	Dataset (includes microfiche)....	PB86-171006	$325.00
	Microfiche only..................	PB86-170990	5.95
	Paper copy of microfiche.........	PB86-170990	80.00
CSFII 85-2	Low-Income Women 19 to 50 Years and Their Children 1 to 5 Years, 1 Day, 1985		
	Dataset (includes microfiche)....	PB87-197158	325.00
	Microfiche only..................	PB87-134722	14.50
	Paper copy of microfiche.........	PB87-134722	56.95
CSFII 85-3	Men 19 to 50 Years, 1 Day, 1985.....		
	Dataset (includes microfiche)....	PB87-197141	325.00
	Microfiche only..................	PB87-194049	19.00
	Paper copy of microfiche.........	PB87-194049	98.95
CSFII 85-4	Women 19 to 50 Years, and Their Children 1 to 5 Years, 4 Days, 1985		
	Data Set (includes microfiche)...	PB88-201249	325.00
	Microfiche only..................	PB88-201256	29.00
	Paper copy of microfiche.........	PB88-201256	98.95
CSFII 85-5	Low-Income Women 19 to 50 Years, and Their Children 1 to 5 Years, 4 Days, 1985		
	Data Set (includes microfiche)...	PB88-245121	325.00
	Microfiche only..................	PB88-245113	29.00
	Paper copy of microfiche.........	PB88-245113	98.95
CSFII 85-6	Women 19-50 Years, and Their Children 1-5 Years, 6 Waves of Data, 1985		
	Dataset (includes microfiche)...	PB88-122411	325.00
	Microfiche only.................	PB88-100227	34.00
	Paper copy of microfiche........	PB88-100227	104.95
CSFII 85-7	Low-Income Women 19-50 Years, and Their Children 1 to 5 Years, 6 Waves of Data, 1985		
	Dataset (includes microfiche)...	PB89-154330	$325
	Microfiche only.................	PB89-154348	31.00
	Paper copy of microfiche........	PB89-154348	103.95
CSFII 86-1	Women 19 to 50 Years and Their Children 1 to 5 Years, 1 Day, 1986		
	Dataset (includes microfiche)...	PB88-117767	$325
	Microfiche only.................	PB88-100219	19.00
	Paper copy of microfiche........	PB88-100219	80.95
CSFII 86-2	Low-Income Women 19 to 50 Years and Their Children 1 to 5 Years, 1 Day, 1986		
	Dataset (includes microfiche)...	PB89-124382	$325
	Microfiche only.................	PB89-124390	25.50
	Paper copy of microfiche........	PB89-124390	85.95
CSFII 86-3	Women 19 to 50 Years, and Their Children 1 to 5 Years, 4 Days, 1986		
	Dataset (includes microfiche)...	PB89-154355	$325
	Microfiche only.................	PB89-154363	36.00
	Paper copy of microfiche........	PB89-154363	109.95

	Dataset	Accession Number	Cost
CSFII 86-4	Low-Income Women 19 to 50 Years and Their Children 1 to 5 Years, 4 Days, 1986		
	Dataset (includes microfiche)...	PB89-205520	$325
	Microfiche only.................	PB89-205538	36.00
	Paper copy of microfiche	PB89-205538	109.95
CSFII 86-5	Women 19 to 50 Years, and Their Children 1 to 5 Years, 6 Waves of Data, 1986		
	Dataset (includes microfiche)...	PB89-154371	$325
	Microfiche only.................	PB89-154389	31.00
	Paper copy of microfiche........	PB89-154389	109.95
CSFII 86-6	Low-Income Women 19 to 50 Years, and Their Children 1 to 5 Years, 6 Waves of Data, 1986		
	Dataset (includes microfiche)...	PB89-205546	$325
	Microfiche only.................	PB89-205553	36.00
	Paper copy of microfiche........	PB89-205553	109.95

IV. PERIODICAL ARTICLES FROM THE CSFII 1985 and 1986

Food and Nutrient Intakes of Low-Income Women and Children, by Urbanization, 1985/86, by K.S. Tippett, S.J. Mickle, and L. Roidt. In Family Economics Review, 3(1), 1990.

Diets of American Women in 1985, by R.L. Rizek and K.S. Tippett. In Food Nutrition News, National Live Stock and Meat Board, 61(1):1-4, 1989.

Effect of Eating at Food Service Establishments on the Nutritional Quality of Women's Diets, by P.M. Guenther and G. Ricart. In Topics in Clinical Nutrition, 4(2):41-45, 1989. (Also in Proceedings of the 10th International Congress of Dietetics, Paris, France: Dietetics in the 90's. Role of the Dietitian/Nutritionist, 92-102, 1988.)

Food Consumption Changes of Adult Women Between 1977 and 1985, by B.M. Popkin, et al. In American Journal of Agricultural Economics, 71(4):949-959, 1989.

Food Consumption Trends of U.S. Women: Patterns and Determinants Between 1977 and 1985, by B.M. Popkin, et al. In American Journal of Clinical Nutrition, 49:1307-1319, 1989.

Mean Proportion and Population Proportion: Two Answers to the Same Question? by S.M. Krebs-Smith, et al. In Journal of the American Dietetic Association, 89(5):671-676, 1989.

Sources of Variation in Energy Intake by Men and Women as Determined from One Year's Daily Dietary Records, by P.P. Basiotis, et al. In American Journal of Clinical Nutrition, 50(3):448-453, 1989.

Validation of a Nutrient Adequacy Score for Use with Women and Children by S.M. Krebs-Smith and L.D. Clark. In Journal of the American Dietetic Association, 89(6):775-783, 1989.

Development of the Continuing Survey of Food Intakes by Individuals (CSFII) Data Base, by B.P. Perloff. In Proeedings of 12th National Nutrient Databank Conference, Houston, Texas, April 13-15, 1987. pp. 25-30, 1988.

Dietary Intakes By Employment Status, by K.S. Tippett and S. Cristofar. In Family Economics Review, 1(4):11-13, 1988.

Modeling Food Consumption Decisions As a Two-Step Process, by P.S. Haines, D.K. Guilkey, and B.M. Popkin. In American Journal of Agricultural Economics, 70(3):543-552, 1988.

Trends in U.S. Fat and Oil Consumption, by R.L. Rizek, N.R. Raper and K.S. Tippett. In Journal of American Oil Chemists Society, 65(5): 722-723, 1988.

Women's Food and Nutrient Intakes Away From Home, by C.W. Enns and P.M. Guenther. In Family Economics Review, 1:9-12, 1988.

Breads and Pastas in the U.S. Diet, by A.M. Riley. In Cereal Foods World, 32(7):460-464, 1987.

Diets of American Women by Income, Spring 1977 and Spring 1985, by K.S. Tippett and H.A. Riddick. In Family Economics Review, 1:10-17, 1987.

Diets of American Women: How they Relate to Standards, by B.B. Peterkin and L.S. Sims. In Federation Proceedings, 46:1001 (Abstract No. 3992).

Impact of Ready-to-eat Cereal Consumption on Nutrient Intake, by M.E. Zabik. In Cereal Foods World, 32(3):234-239, 1987.

Planning Diets to Meet the National Research Council's Guidelines for Reducing Cancer Risk, by L.E. Cleveland and A.B. Pfeffer. In Journal of the American Dietetic Association, 87(2):162-168, 1987.

Use of National Survey Data Bases for Nutrition Research, by S.P. Murphy. In Clinical Nutrition, 6(5):208-218, 1987.

When, Where, With Whom and What Older Americans Eat, by B.B. Peterkin, et al. In Gerodontics, 3:14-19, 1987.

Dietary Supplement and Food Intake in Women of Childbearing Age, by N. Kurinij, et al. In Journal of the American Dietetic Association, 86(11):1536-1540, 1986.

Diets of American Women: Looking Back Nearly a Decade, by B.B. Peterkin and R.L. Rizek. In National Food Review, NFR-34, Summer:12-15, 1986.

Effect of Enriched and Fortified Grain Products on Nutrient Intake, by D.A. Cook and S.O. Welsh. In Cereal Foods World, 32(2):191-196, 1986.

First Results from USDA's Continuing Survey of Food Intakes by Individuals, by R.L. Rizek. In Journal of the American Dietetic Association 86(6):788, 1986.

Food Consumption Patterns and Sources of Dietary Cholesterol, by E.M. Pao and S.J. Mickle. In Proceedings of Conference on Impact of Dietary Cholesterol on Plasma Lipoproteins and Atherogenesis, National Institutes of Health, Bethesda, MD, July 1-3, 1986.

Women's Diets: 1977 and 1985 by B.B. Peterkin. In Journal of Nutrition Education, 18(6):251-257, 1986.

V. PRESENTATIONS

Dietary Intake Survey Methodology and Implications for Interpretation, by E.M. Pao. Speech presented at the 72nd Annual Meeting of the American Dietetic Association, Kansas City, MO, October 24, 1989.

Eating Patterns of American Women: An Analysis of Food and Nutrient Intake as a Function of Reported Occupation, by S.P. Cristofar and P.P. Basiotis. Paper presented at the Mid-South Sociology Annual Meeting, Baton Rouge, LA, October 20, 1989.

Expenditures on Food Away From Home by All-Income and Low-Income Households: Analysis Using USDA's 1985 and 1986 Continuing Survey of Food Intakes by Individuals, by P.P. Basiotis and H-W. Yang. Speech presented at the Annual American Agricultural Economics Association Meeting, Baton Rouge, LA. July 30 to August 2, 1989.

Standard Errors of Differences in Complex Surveys by L. Roidt and P. Kott. Talk presented at the American Statistical Association's 1989 Winter Conference, San Diego, CA, January 4-6, 1989.

The Relationship of Recommendations to Current Food Consumption, by A.J. Moshfegh. Speech given to the Kansas City Nutrition Council Conference, "Heart Health: A Nutrition Update," Manhattan, KS, February 23, 1989.

The Relationship of Recommendations to Current Food Consumption, by S.S. Harris. Speech given at the Fifth Annual Conference for Health Professionals "Marketing Your Services to a Changing Clientele," Orlando, FL, February 24, 1989.

Trends in Eating Patterns of American Women by S.P. Cristofar, et al. Paper presented at the Third Annual Meeting of the Association for the Study of Food and Society. College Station, TX, April 7, 1989.

Weight Status of American Women: Their Profile of Associated Characteristics, by A.J. Mosfegh, et al. Paper presented at the 72nd Annual Meeting of the American Dietetic Association, Kansas City, MO, October 25, 1989.

Assessing Dietary Adequacy in the Development of Food and Nutrition Policy, by H. Jensen. In Proceeding from the American Council on Consumer Interests, 34th Annual Conference, Chicago, IL, April 6-9, 1988.

Calcium: Levels of Intake and Associated Factors in the Diets of Women, by S. Welsh. Presented at the American Dietetic Association Conference for Advanced Practice and Research, Chicago, IL, March 12, 1988.

Changing Dietary Patterns and Nutrition in the U.S., by S.O. Welsh. Speech given at the American Agricultural Economics Association, Knoxville, TN, August 2, 1988.

Contributions of Fruits and Vegetables to Human Nutrition, by S.O. Welsh. Speech given at the Joint Council on Food and Agricultural Sciences. Washington, DC, April 14, 1988.

CSFII Documentation of Nutrient Data Base Changes by B.P. Perloff. Presentation at the Thirteenth National Nutrient Data Bank Conference, Framingham, MA, June 6-8, 1988.

Current Dietary Intakes of Women and Their Young Children, by A.J. Moshfegh. Speech presented at the Seventh Annual Virginia State Public Health Nutrition Conference, Williamsburg, VA, November 30, 1988.

Current Dietary Status of American Women: Where Do We Go From Here?, by P.M. Guenther. Speech given at the D.C. Metropolitan Area Dietetic Association Annual Meeting, Rosslyn, VA, September 23, 1988.

Dietary Fiber in the Diets of Women, by F.J. Cronin. Presented at the Conference for Advanced Practice and Research, American Dietetic Association, Chicago, IL, March 12, 1988.

Eating Out: Who and Where by P.S. Haines, et al. Session 10, Agricultural Outlook Conference, Washington, DC, November 30, 1988.

Effect of Eating at Foodservices on the Nutritional Quality of Women's Diets, by P.M. Guenther and G. Ricart. Presented at the 10th International Congress of Dietetics, Paris, France, July 3-8, 1988.

Estimating Geographic Nutrient Intake Differences from National Data, by R. Raunikar, et al. In Proceeding from the American Council on Consumer Interests, 34th Annual Conference, Chicago, IL, April 6-9, 1988.

Expenditures on Food Away from Home by Low-Income Households: Analysis Using USDA's 1985 and 1986 Continuing Survey of Food Intakes by Individuals (CSFII) Data, by H-W. Yang and P.P. Basiotis. Presented at the American Agricultural Economics Association, Knoxville, TN, July 31-August 3, 1988.

Factors Influencing Eating Behavior: The Consumer Perspective, by A.J. Moshfegh. Speech given at the Impacting Health Through Nutrition Conference, Jefferson City, MO, March 23, 1988.

Food Choices: What and Why, by B.M. Popkin. Session 10, Agricultural Outlook Conference, Washington, DC, November 30, 1988.

How Well Are Our Food Choices Meeting Our Nutrition Needs. Speech by S.S. Harris presented by the Journalists' Conference, San Francisco, CA, November 1, 1988 and Speech by S.O. Welsh presented at the Journalists' Conference, Washington, DC. December 1, 1988.

Iron: Levels of Intake and Associated Factors in the Diets of Women, by A.J. Moshfegh. Speech at the 71st Annual Meeting of the American Dietetic Association, San Francisco, CA. October 4, 1988.

Personal, Household, Income-, and Health-Related Factors Associated with Dietary Fiber and Fat Intakes by Women Aged 19 to 50 Years, by S.M. Krebs-Smith. Presented at the Annual Meeting of the American Public Health Association, Boston, MA, November 16, 1988.

Principal Components and Structure of Nutrient Intakes of Women Ages 19-50, by G. Harrison et al. Speech at Federation of American Societies for Experimental Biology, Las Vegas, NV, May 1988.

Recent Trends in Food Consumption and Current Status of USDA Food Consumption Surveys, by H.A. Riddick. Presented at Purdue University, West Lafayette, IN, March 18, 1988.

Selected Social and Demographic Characteristics of Adult Females' Reported Perception of Food Sufficiency, Using the Continuing Survey of Food Intakes by Individuals, 1985 and 1986, by S.P. Cristofar and P.P. Basiotis. Abstract of Speech at Second Annual Meeting of the Association for the Study of Food in Society, Bethesda, MD, May 27, 1988.

The Rest of the Story: What Americans Are Eating ... And Not Eating, by S.O. Welsh. Speech given at the Symposium, "Newer Knowledge of Heart Disease: Simplifying Risk Reduction", San Francisco, CA, February 9, 1988.

Total Fat in the Diets of American Women, by S.M. Krebs-Smith. Presented at the Conference for Advanced Practice and Research, American Dietetic Association, Chicago, IL, March 12, 1988.

Vitamin B-6: Levels of Intake and Associated Factors in the Diets of Women 19-50 Years of Age, by A. Moshfegh. Presented at the American Dietetic Association Conference for Advanced Practice and Research, Chicago, IL, March 12, 1988.

Vitamin B-6: Levels of Intake and Associated Factors in the Diets of Women 19-50 Years of Age, by A. Moshfegh. Presented at the American Dietetic Association Conference for Advanced Practice and Research, Chicago, IL, March 12, 1988.

What Americans Are Eating, by L.S. Sims. Speech at Seminar, "Chicken and Spa Cuisine" Sponsored by the National Broiler Council, Fort Lauderdale, FL, April 14, 1988.

What Are Women Eating and What Is Their Dietary Status, by L,S. Sims. Speech given at the Public Voice Symposium on Women and Nutrition: Finding Informed Choices, Washington, DC, May 12-13, 1988.

Where's the Fat? Where's the Fiber? Speech by F.E. Thompson. Session 10, Agricultural Outlook Conference, Washington, DC, November 30, 1988.

Where, When, And What Women Are Eating In The 1980's And Implications For The Future, by S.O. Welsh. Presented at the Annual American Home Economics Association Meeting, Baltimore, MD, June 20, 1988.

Continuing Survey of Food Intakes by Individuals: Implications for Dietary Guidance, by B.B. Peterkin. Speech at Post Conference Data Lab of the Association of State and Territorial Public Health Nutrition Directors, Chapel Hill, NC, June 4, 1987.

Continuing Survey of Food Intakes by Individuals -- Past Observations and Future Implications, by L.S. Sims. Speech at FAES Graduate School at the National Institutes of Health, Washington, DC, December 16, 1987.

Contributions of Fruits and Vegetables to Human Nutrition, by L.S. Sims and B.B. Peterkin. In Proceedings of 1st International Symposium of Horticulture and Human Health, April 12-15, 1987.

Development of the Continuing Survey of Food Intakes by Individuals (CSFII) Data Base, by B.P. Perloff. In Proceedings of the Twelfth National Nutrient Databank Conference, Houston, TX, April 12-15, 1987.

Dietary Guidelines and Dietary Practices of Women in the U.S., by P.M. Guenther and G. Ricart. Speech at the American Dietetic Association Meetings, Atlanta, GA, October 1987.

Diets of American Women: How they Relate to Standards, by B.B. Peterkin and L.S. Sims. Speech at the 71st Annual Meeting of the Federation of American Societies for Experimental Biology, Washington, DC, April 1, 1987.

Diets of Americans: Where Are They Headed?, by L.S. Sims. Speech to Technical Committee, Grocery Manufacturers of America, Inc., Washington, DC, September 10, 1987.

Diets of Women and Children: How Good Are They? by B.B. Peterkin. Speech at Mid-Atlantic Regional WIC Conference, Williamsburg, VA, August 6, 1987.

Food Sources of Energy-Yielding Nutrients in Diets of Women, by S.M. Krebs-Smith, et al. In American Dietetic Association 70th Annual Meeting Abstracts, Atlanta, GA, October 1987.

HNIS Studies of Dietary Intake Methodologies: An Overview, by E.M. Pao. Speech at the National Institutes of Health, Third Conference for Federally Supported Human Nutrition Research Units and Centers, Bethesda, MD, February 25, 1987.

Inter and Intra-Individual Variation in Recent Surveys, by P.P. Basiotis. Speech at the Third Conference for Federally Supported Human Nutrition Research Units and Centers, National Institutes of Health, Bethesda, MD, Febraury 25, 1987.

Longitudinal Surveys: The CSFII Experience and Methodology, by L.S. Sims. Speech at the Third Conference for Federally Supported Human Nutrition Research Units and Centers, National Institutes of Health, Bethesda, MD, Febuary 25, 1987.

Methodology for Predicting Nutrient Intake, by S.R. Johnson. In Research on Survey Methodology, Adm. Report No. 382. Proceedings of a symposium held at the 71st annual meeting of the Federation of American Societies for Experimental Biology, April 1, 1987.

Obtaining Data on Food Intakes, by E.M. Pao. Paper presented at the National Conference on Nutritional Status Assessment of the Individual, American Health Foundation, New York, NY, October 6-7, 1987.

Results of an Exploratory Study of Longitudinal Measures of Individual Food Intake, by L.B. Wilson and B.B. Rothschild. In Research on Survey Methodology, Adm. Report No. 382. Proceedings of a Symposium held at the 71st Annual Meeting of the Federation of American Societies for Experimental Biology, April 1, 1987.

Role of Meals in Diet and Health, by L.S. Sims. Speech at Governor's Conference on Agriculture, Rapid City, SD, September 22, 1987.

Selecting Methods to Meet State Needs, by E.M. Pao and F.A. Larkin. Speech at Data Post Conference of the Association of State and Territorial Public Health Nutrition Directors, Chapel Hill, NC, June 4, 1987.

Survey Sample Integrity: Experience with the Panel Approach, by P.P. Basiotis and E.M. Pao. In Research on Survey Methodology, Adm. Report No. 382. Proceedings of a Symposium held at the 71st Annual Meeting of the Federation of American Societies for Experimental Biology, April 1, 1987.

The Role of Beef in Diet and Health, by S.S. Harris. National Cattlemen's Association, January 26, 1987.

Topics for Further Research in Dietary Intake Measurement, by H. Riddick. In Research on Survey Methodology, Adm. Report No. 382. Proceedings of a Symposium held at the 71st Annual Meeting of the Federation of American Societies for Experimental Biology, April 1, 1987.

Toward the 21st Century: What Will We Eat?, by L.S. Sims. AHEA Annual Meeting, Food and Nutrition Section, Indianapolis, IN, July 1, 1987.
USDA Surveys: Past and Present, by R.L. Rizek and K.S. Tippett. In Proceedings of Twelfth National Nutrient Databank Conference, Houston, TX, April 12-15, 1987.

Using USDA Continuing Survey Data, by H.A. Riddick. In Proceedings of the Twelfth National Nutrient Databank Conference, Houston, TX, April 12-15. 1987.

Weight Status and Associated Characteristics of Adult Women--CSFII 1985, by A.J. Moshfegh. Speech at the Annual Meeting of the Society for Nutrition Education, San Francisco, CA, July 9, 1987.

What Americans Eat, by S.O. Welsh. Speech given at Journalists Conference, Washington, DC, Denver, CO, and Chicago, IL, October 1, 15, and 29, 1987.

What Are We Eating? Fat Intakes by American Women, by R.L. Rizek and K.S. Tippett. Speech presented at the American Oil Chemists Society, Northeast Section, Winter Symposium, Elizabeth, NJ, December 1, 1987.

Dietary Data from USDA, by B.B. Peterkin. NHANES/Food Additive Workshop, Food and Nutrition Board, National Academy of Sciences, Washington, DC, November 13, 1986.

Dietary Data--Who Needs It and Why?, by B.B. Peterkin. Speech at Conference on National Nutrition Surveys and State Needs, Providence, RI, May 21-23, 1986 and Conference on National Nutrition Surveys and State Needs, Association of State and Territorial Public Health Nutrition Directors, San Francisco, CA, November 20-21, 1986.

Diets of American Women, by R.L. Rizek. Talk at Annual Meeting of Federation of American Societies of Experimental Biology, St. Louis, MO, April 15,-1986.

Eggs as Sources of Cholesterol and Fat in American Diets, by S.S. Harris. United Egg Producers Board, Scottsdale, AZ, October 21, 1986 and Northeast United Egg Producers, Atlantic City, NJ, November 10, 1986.

Food Consumption Patterns and Sources of Dietary Cholesterol, by E.M. Pao and S.J. Mickle. Presented at the Workshop on the Impact of Dietary Cholesterol on Plasma Lipoproteins and Atherogenesis, National Institutes of Health, Bethesda, MD, July 1-3, 1986.

Linking Nutrient Databases--1977-78 NFCS to 1985 CSFII, by A.J. Moshfegh. Eleventh Annual National Nutrient Databank Conference, Athens, GA, July 1, 1986.

Measures of Nutrition for High Risk Groups and USDA Surveys, by B.B. Peterkin. Nutrition Monitoring Methodologies for High Risk Groups Workshop, Food and Nutrition Board, National Academy of Sciences, Washington, DC, May 15, 1986.

Modifications of the USDA Food Code Manual for the CSFII, by K.H. Fleming. Food Consumption Data Users Group, Washington, DC, January 15, 1986.

Sample Design: NFCS and CSFII, by B.B. Peterkin. Conference on National Nutrition Surveys and State Needs, Association of State and Territorial Public Health Nutrition Directors, San Francisco, CA, November 20-21, 1986.

Surveys, Their Usefulness and Pitfalls, by S.O. Welsh. Cooperative State Research Service Workshop on the Role of Nutrition in Health Maintenance, Urbana, IL, Oct. 6, 1985.

USDA's Continuing Survey Looks at Diets in 1985 and 1986, by S.S. Harris. Agricultural Outlook Conference, December 2-4, 1986.

Uses and Limitations of Use of NFCS Data by States, by B.B. Peterkin. Conference on National Surveys and State Needs, Providence, RI, May 21-23, 1986.

What's Ahead for USDA Food Consumption Surveys, by B.B. Peterkin. Conference on National Nutrition Surveys and State Needs, Association of State and Territorial Public Health Nutrition Directors, San Francisco, CA, November 20-21, 1986.

What Americans Are Eating, by S.S. Harris. USDA/FDA Journalist's Conferences in New York, NY, October 30-31 and Los Angeles, CA, November 13-14, 1986.

Animal Foods: Consumption and Contribution of Nutrients in the U.S., by B.B. Peterkin. Talk to Committee on Technological Options to Improve Nutritional Attributes of Animal Products, Board of Agriculture, National Research Council, December 16, 1985.

Characteristics of Vitamin and Mineral Supplement Users and Nonusers, by A.J. Moshfegh. American Dietetic Association Annual Meeting, New Orleans, LA, October 7, 1985.

Linkage of Food Codes--1977-78 Nationwide Food Consumption Survey to 1985 Continuing Survey of Food Intakes by Individuals, by A.J. Moshfegh. Food Consumption Users Group Meeting (inter-agency governmental group), Washington, D.C., November 18, 1985.

A New Dimension to Nutrition Monitoring: USDA's Continuing Survey of Food Intakes by Individual's, by R.L. Rizek and L.P. Posati. Session 31, Agricultural Outlook Conference, Washington, DC, December 5, 1984.

VI. BOOK CHAPTERS

Diets of Americans: How Good Are They?, by B.B. Peterkin. In 1986 Yearbook of Agriculture: Research for Tomorrow, USDA, pp. 182-187. 1986.

Eating Patterns--What's to be Done About Them, by B.B. Peterkin. In What is American Eating? Food and Nutrition Board, National Research Council, National Academy of Sciences, pp. 158-161, 1986.

Question: Have dietary guidelines for the general population been issued?

Answer: The Nutrition and Your Health: Dietary Guidelines for Americans express Federal nutrition policy. These Guidelines were issued jointly by the U.S. Department of Agriculture (USDA) and the U.S. Department of Health and Human Services (DHHS) in 1980. As a result of a review by a jointly appointed Federal Advisory Committee, they were revised slightly and reissued in 1985. A new Federal Advisory Committee has been working since January of 1989 to review the Guidelines and to make recommendations to the Secretaries. It is expected that the third edition of the Guidelines will be issued by the end of 1990. As an expression of Federal nutrition policy these Guidelines are "the basis of the food and nutrition education activities carried out by USDA and DHHS (Memorandum of Understanding, Januery 18, 1989). HNIS chairs a nine member interagency committee with a liaison member from DHHS which reviews all USDA dietary guidance materials prior to publication to ensure that they accurately reflect Federal policy.

Question: Dr. Heimbach, I notice in your statement that one of the goals of nutrition monitoring has been to provide Congress with dietary and nutritional information about our population. What information is the Congress to expect?

Answer: As noted in the Joint Implementation Plan for a Comprehensive National Nutrition Monitoring System submitted to Congress by USDA and DHHS in September 1981, the Departments are committed to sending a report on the nutritional and dietary status of the U.S. population to Congress at three year intervals. This commitment was repeated in the Operational Plan for the National Nutrition Monitoring System submitted by the Departments in 1987.

The first comprehensive report on the nutritional and dietary status of the population was submitted to Congress in 1986, the second in 1989:

- Nutrition Monitoring in the United States--A Report from the Joint Nutrition Monitoring Evaluating Committee. USDA and DHHS. Publication No. PHS 86-1255, July 1986 (356 pages).

- Nutrition Monitoring in the United States--An Update Report on Nutrition Monitoring. USDA and DHHS. Publication No. 89-1255, September 1989 (436 pages).

Planning is in progress for the third report on the nutritional and dietary status of the population which will be sent to Congress in 1992. As part of the planning process, we hope to correspond or meet with the major users of the report--Congressmen and key staff, professional associations and others in the public and private sector health community. We will be seeking advice concerning the focus, scope, and presentation of the next report.

In addition, beginning this summer, Members of Congress will be receiving three chartbooks of data from the 1987-88 Nationwide Food Consumption Survey. Each of these chartbooks will present vital information for policymakers in straightforward, non-technical formats.

Question: Will it be useful in helping with policy decision about various nutrition issues, such as nutrition labeling or necessary components to food assistance packages?

Answer: Information from the National Nutrition Monitoring System is essential in making policy decisions. To achieve a food supply in the United States that is sufficient, nutritious, and safe it is essential to have data which allows us to assess the "status quo" before any effective methods of improvement can be developed. For example, if the food assistance programs are to help Americans obtain a sufficient diet, it is essential to assess the adequacy of current American diets. We need to identify what problems exist, who has them, and why. From these types of assessments effective solutions can emerge.

As noted in response to the previous question, we plan to work with users of the first two reports on nutrition monitoring--including Congressmen and key staff--to evaluate their usefulness in helping with policy decisions. Their advice will help us plan the focus, scope, and presentation of the third report to assure its usefulness for this purpose.

Data from the National Nutrition Monitoring System are used by Federal decision makers in many applications, including food assistance programs, food safety issues, and nutrition education activities.

Question: What practical ways can the information be used?

Answer: Some examples of practical applications follow.

The Thrifty Food Plan is a plan for purchasing the amounts of different types of foods that would provide nutritious meals and snacks for a week. This plan is the statutory basis for Food Stamp Program benefits. The Plan is based on data from USDA food consumption surveys which show the types, quantities, cost, and nutritional quality of family diets.

To help increase the safety of the food supply, HNIS supplies data on the quantities of specific foods consumed by the U.S. population and population subgroups to the Environmental Protection Agency and the Food and Drug

Administration. We will be providing similar information on the equivalent weights of agricultural commodities consumed to other USDA agencies as part of the Department's new Food Safety Data Initiative.

USDA's new Diet-Health Knowledge Survey, which is part of the Continuing Survey of Food Intakes by Individuals, will provide specific information about how consumers use food labels. Preliminary results from that survey are expected in Fall 1990. If we are to help people implement the Dietary Guidelines, we must know as a start how people are doing in relation to these guidelines. The same is true for the nutrition related Health Objectives for the Nation for the Year 2000, currently under development by the Public Health Service in the Department of Health and Human Services with participation by USDA.

Data on current food-consumption practices are essential in planning new applications of food design and biotechnology. For example, the Food and Drug Administration has responsibility for regulating the uses of fat substitutes such as Simplesse (recently approved) and Olestra (currently under review). Food-consumption data have been used and play a vital role in projecting the future impact of these products.

For many Americans, lack of money is not a major barrier to a more healthful diet. However, lack of knowledge about the relationship between diet and health and lack of knowledge and skills related to planning meals, purchasing and preparing foods may be major barriers. Dietary guidance from USDA is based on a clear understanding of current food consumption practices, so that the information provided is practical and useful to the target audience.

SUBCOMMITTEE RECESS

Senator BURDICK. Our next hearing will be held Wednesday, March 21, 1990, in this same room at 10 a.m. The subcommittee will receive testimony from the Commodity Futures Trading Commission, the Food and Drug Administration, the Farm Credit Administration, and the Farm Credit System Assistance Board.

The subcommittee now stands in recess.

[Whereupon, at 10:55 a.m., Tuesday, March 6, the subcommittee was recessed, to reconvene at 10 a.m., Wednesday, March 21.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1991

WEDNESDAY, MARCH 21, 1990

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:05 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Quentin N. Burdick (chairman) presiding.

Present: Senators Burdick, Harkin, Cochran, Kasten, and Grassley.

COMMODITY FUTURES TRADING COMMISSION

STATEMENT OF WENDY GRAMM, CHAIRMAN

ACCOMPANIED BY:

DONALD L. TENDICK, ACTING EXECUTIVE DIRECTOR
MADGE BOLINGER, BUDGET DIRECTOR

OPENING REMARKS

Senator BURDICK. Good morning, ladies and gentlemen. Today we continue our hearings on the fiscal year 1991 budget for Agriculture, Rural Development, and Related Agencies. Today we will review the budgets for the Commodity Futures Trading Commission, the Food and Drug Administration, the Farm Credit System, and the Farm Credit System Assistance Board.

We will begin with the Commodity Futures Trading Commission and hear from Chairman Wendy Gramm. Welcome to the committee, Dr. Gramm.

CFTC proposes an increase in its budget from $37,186,000 for 1990 to $44,960,000 for 1991—an increase of 21 percent. In addition, the Commission seeks a supplemental appropriation of $3,655,000 for fiscal year 1990 which, if granted, would reduce the increase requested for 1991 to 10 percent.

We have your statement, Dr. Gramm. It will be made a part of the record in full. I would ask you to summarize it at this point and make any additional comments you would like to make.

STATEMENT OF WENDY GRAMM

Dr. GRAMM. Thank you, Mr. Chairman.

I appreciate the opportunity to be here today to summarize the fiscal year 1991 budget request of the Commodity Futures Trading Commission. With me today are Donald L. Tendick, the Acting Executive Director of the Commission, and Madge Bolinger, the Budget Director.

The President's fiscal year 1991 budget, which was submitted to Congress in January 1990, contains a request for $44,960,000 which provides for 595 staff-years and a mainframe computer upgrade for the Commission. Based upon the events of last year, I believe that the funding at the requested level is essential if the Commission is to carry out its legislative mandate and fulfill its regulatory responsibilities adequately.

EVENTS OF 1989

The last year was an unprecedented one for the Commission beginning with the public announcement of major investigations of floor trading at the Chicago and New York Exchanges. So far, the Chicago investigation has led to the indictment of 48 individuals. Other important events of 1989 and early 1990 include an emergency action in the soybean pits, a sudden and large decline in the stock market during October, and the bankruptcy of the Drexel-Burnham Lambert Group. We also have continued to work with Congress on reauthorization legislation.

THE COMMISSION'S RESPONSE

The Commission is aware of the current fiscal restraints contained in the Federal budget. However, we feel that the law enforcement, trade practice abuse, and floor surveillance problems demand that the Commission increase both its enforcement resources and its resources to monitor the daily trading activities on the Nation's commodity exchanges.

These increased resources are necessary to ensure that hedgers and other market users have their trades executed at the prevailing market price without abuse. More computer support is also needed to conduct trade practice surveillance and support investigations.

The Commission's clear need for additional funding and staffing has been widely supported by Congress in recent reauthorization hearings, as well as by the administration in granting CFTC a funding and staffing increase in the President's fiscal year 1991 budget.

However, the Commission needs resources now. And, therefore, we have filed a request with OMB for a fiscal year 1990 supplemental appropriation of $3,655,000, providing for 25 staff-years to quickly address some of the problems identified.

Already, we have expanded our trade practice surveillance program which includes trading floor surveillance, rule enforcement reviews, and trade practice investigations. Other Commission programs—financial oversight, market surveillance, and law enforcement complement and augment the Commission's trade practice surveillance program to assure that trading is fair and efficient and to help maintain the financial integrity of the markets.

ENFORCEMENT

During the year, enforcement activities focused public and congressional attention on self-regulation, the commodity futures and option markets and on the Commission's oversight regulation. In addition to the much publicized Chicago and New York investigations, we also took other significant actions.

Injunctive complaints were filed against International Trading Group, Ltd. and Siegel Trading Co. for fraudulent sales tactics. The ITG action is the largest enforcement action to prohibit a firm from using fraudulent sales practices in CFTC history.

The Commission also filed a 19-count administrative complaint against Philipp Brothers, Inc. and others for violations of the Commodity Exchange Act and Commission regulations. A $4 million civil penalty was imposed, representing the largest fine in CFTC history.

The Commission concluded its major manipulation case against the Hunt Brothers which dealt with the alleged cornering of the silver market in the late 1970's. The Hunts agreed to pay a penalty of $20 million to the U.S. Government.

MARKET SURVEILLANCE

The market surveillance program faced several major challenges during fiscal year 1989. Most significantly, a substantial position held by a large trader in the Chicago Board of Trade soybean futures led to intensified surveillance actions by the Commission and, ultimately, the declaration of a market emergency by the CBT on July 11, 1989.

Both CFTC and CBT surveillance staff closely monitored the market daily and issued formal as well as private warnings to Ferruzzi, a large trader in the soybean futures markets. Since liquidation was not occurring, and neither the CBT nor the Commission had assurances that it would occur in a timely fashion, the CBT declared a market emergency and ordered a scheduled liquidation of the positions in the July 1989 soybean futures contract.

The Commission thoroughly reviewed the events surrounding this emergency action and found the exchange acted in accordance with its rules and responsibilities.

Senator **BURDICK**. I regret that I have to leave for a vote. I will be right back.

[A brief recess was taken.]

Senator **BURDICK**. The committee will come to order.

You may continue.

Dr. **GRAMM**. Thank you, Mr. Chairman, I just have a few more minutes to go.

Our surveillance staff is examining closely the price decline in the October 1989 stock market. We continue to work closely with the SEC and other members of the President's Working Group on Financial Markets to ensure the integrity of the country's financial markets.

DIRECT REGULATION

During the year we increased and improved our oversight activities and increased direct regulation of exchange activities and programs. For example, we reviewed exchange audit trail systems—the audit trail rule requires the execution times of all trades to be determined to the minute and recommended that each exchange improve the accuracy and verifiability of its system and better use trade-timing information to detect potential trade practice abuses.

The Commission also approved rules to prevent alteration of trading cards and trading records; and approved rules to bar individuals with disciplinary histories from serving on exchange disciplinary committees, arbitration panels, and governing boards.

The staff also completed a study of the trading practices of broker associations and is drafting a rule to define broker associations and require registration of their members. In addition, we are preparing rules regarding the execution of customer orders on the open and the close of a trading session.

Based on our study of dual trading and given information learned from the Chicago undercover operation, the Commission has proposed rules that would restrict dual trading. Our staff will continue to analyze data to ensure that any restriction does not impose unnecessary costs or have unintended side effects.

PREPARED STATEMENT

Mr. Chairman, given the challenges which continue to confront the Commission, I believe the fiscal 1991 budget request before you is a necessary one. A written statement accompanies my oral remarks and provides a more detailed description of the Commission's priorities.

Thank you very much. And I will be pleased to answer any questions.

[The statement follows:]

STATEMENT OF DR. WENDY L. GRAMM

Mr. Chairman and Members of the Subcommittee: I appreciate the opportunity to appear here today to summarize the fiscal year 1991 Budget Request of the Commodity Futures Trading Commission. With me today are Donald L. Tendick, the Acting Executive Director of the Commission, and Madge Bolinger, the Budget Director.

The President's fiscal year 1991 Budget, which was submitted to Congress in January 1990, contained a request for $44,960,000, 595 staff years and a mainframe computer upgrade for the Commodity Futures Trading Commission. This amount is consistent with the Commission's request in September of 1989. Based upon the unprecedented events that occurred in 1989, I believe that funding at the requested level is essential if the Commission is to carry out its legislative mandate and fulfill its responsibilities in an efficient and effective manner.

UNPRECEDENTED EVENTS OF 1989

1989 was a benchmark year for the Commission. In January the Commission and the United States Department of Justice publicly acknowledged the existence of a joint undercover investigation of futures trading at the Chicago Board of Trade and the Chicago Mercantile Exchange. So far, that investigation has resulted in the indictment of 47 traders and 1 runner from four trading pits at these exchanges.

During the third quarter the Commission, the U.S. Attorney's Office in New York and the U.S. Postal Inspection Service publicly acknowledged a joint investigation of futures trading on the New York markets which involved the service of administrative subpoenas and the execution of criminal search warrants. Also, during the summer, the Commission closely monitored the trading activity in the July soybean futures market at the Chicago Board of Trade. On July 11, 1989, the Chicago Board of Trade declared an emergency action relating to the expiration of that futures contract.

On October 13, 1989 the stock index futures markets and stock market experienced a large price decline. Since that time the Commission, the SEC and the other members of the President's Working Group on Financial Markets have been analyzing trading activities, including the impact of circuit breakers, during the period of the price decline. Recently the Commission has worked closely with other members of the Working Group to monitor the bankruptcy of Drexel Burnham Lambert Group, Inc. and its impact on Drexel's broker-dealer and futures commission merchant subsidiary.

Also, the Commission continued to work with the Congress on reauthorization legislation.

As a result of these events the Commission filed a request with OMB for a fiscal year 1990 supplemental appropriation of $3,655,000 and 25 staff years to deal more quickly with some of the problems identified. We have forwarded this supplemental request concurrently to the House and Senate Agriculture and Appropriations Committees. We have also forwarded copies directly to members of the subcommittee in order to inform you of the status of the Commission's budgetary requirements.

THE COMMISSION'S RESPONSE

Before I briefly review some of the highlights of Commission activities during the past year, I would like to first note some of the Commission's important, and recently enhanced, oversight programs. We have expanded the Commission's trade practice surveillance program in a number of significant respects. Our rule enforcement review program, which periodically assesses exchange efforts to assure that trading is fair and efficient, covers a greater range of self-regulatory activity, including, for example, exchange audit trail systems. In addition, the Commission has continued to improve its capacity to conduct direct oversight of trading activity. In particular, the Commission is able to conduct an increased number of sophisticated trade practice investigations to identify abuses through computerized analysis of trade data. The Commission also has expanded trading floor surveillance through increased physical presence of Federal government regulators and exchange personnel in the trading pits.

Similarly, the Commission's financial oversight program also includes periodic rule enforcement reviews, financial surveillance procedures to identify circumstances that warrant intensified Commission scrutiny, direct audits of exchange member firms on a sample basis, and an early warning system to assure that incipient financial problems are detected and closely monitored.

Through our market surveillance program, the Commission monitors the daily activity of large traders in all markets to prevent price manipulation. Through our financial surveillance program, the Commission monitors the transfers of customer positions and segregated funds in connection with financially troubled FCMs or FCM mergers. During 1989, $112.1 million in customer funds, involving 7,713 customer accounts, were transferred between FCMs in bulk transfers. Finally, our ongoing enforcement efforts involve not only our own prosecution of violations of the Commodity Exchange Act, but also continuous cooperation and joint activity with a myriad of state, Federal, and foreign law enforcement agencies.

ENFORCEMENT

Commission enforcement activities focused public and Congressional attention on commodity futures and options markets and on the Commission's oversight regulation during fiscal year 1989. The joint undercover investigation of trading in Chicago and the joint investigation of futures trading on the New York markets were two major efforts of the Commission. However, other extremely significant actions were taken.

For example, in September of 1989 the Commission filed injunctive complaints against International Trading Group, Ltd. (ITG), and Siegel Trading Company, charging them with using fraudulent sales tactics. The complaint against ITG, whose customers lost $428 million, was the largest sales solicitation enforcement proceeding in CFTC history.

On July 31, the Commission issued a 19-count administrative complaint against Philipp Brothers, Inc. (PBI), of New York, New York, and nine other respondents for violations of the registration, anti-fraud, trade practice, recordkeeping, reporting and other provisions of the Commodity Exchange Act and Commission regulations.

The complaint alleged that these violations occurred in connection with the trading of cocoa futures contracts on behalf of commercial customers.

Without admitting or denying the allegations of the complaint, PBI, Phibro Corporation, Cocoa Merchants, Ltd., and Philipp Brothers Commodities Corporation consented to a Commission order requiring them, jointly and severally, to pay a civil penalty of $4 million, at that time the largest fine ever imposed by the Commission, and to cease and desist from violating the provisions of the Act and Commission regulations charged.

In fiscal year 1989 the enforcement program was responsible for placing more than $2,168,505 of customer funds and other assets under the protection of seven equity receivers appointed in injunctive actions and for imposing civil monetary penalties totaling over $7,100,400 on 47 individuals or firms.

The Commission's participation in the Chicago investigation and indictments and the New York investigation is in keeping with the aggressive role it has taken over the years in prosecuting commodity-related fraud. The CFTC's enforcement program has frequently included joint enforcement activities with the FBI, U.S. Attorney's offices, and other law enforcement agencies, both at the state and Federal level. We anticipate continuing those important efforts.

MARKET SURVEILLANCE

The market surveillance program faced major challenges during fiscal year 1989. Most significantly, substantial position concentrations by a large trader in the Chicago Board of Trade (CBT) soybean futures intensified surveillance actions by the Commission and, ultimately, the declaration of a market emergency by CBT on July 11, 1989.

In the aftermath of the drought of 1988, national soybean supplies were at very low levels as the end of the 1988/89 marketing year approached. Consequently, the surveillance staff carefully reviewed the ownership of soybeans in deliverable positions during this period to determine whether the lack of deliverable supplies could render the soybean futures market susceptible to price manipulation or congestion. The Commission's surveillance staff closely monitored the market and maintained extensive contact with the CBT surveillance staff.

The 1989 May and July soybean futures markets faced the greatest threats of a disorderly liquidation. The CFTC and CBT surveillance staffs conducted intensive, coordinated surveillance of both liquidations. Through the use of formal warnings to, and close daily monitoring of, the activities of the largest traders in the May future, a satisfactory contract liquidation was achieved. Surveillance attention was then focused immediately on the July contract, which potentially faced a greater threat than the May contract due to the accumulation of deliverable soybean supplies in the hands of Ferruzzi & Co.

As an additional regulatory tool to deal with threatened congestion in old crop grain and soy-complex futures, the CBT, through an emergency action in late May 1989, instituted exchange speculative position limits parallel to Federal limits in all of its agricultural futures. Both the CBT and CFTC met with Ferruzzi, the largest long trader in soybean futures, several times and had numerous telephone contacts to assess that trader's position and intentions and to advise the trader that an orderly liquidation of its long July futures position was expected. Despite these intensive informal efforts, which included a formal written request from the CBT's Business Conduct Committee specifying an expected daily rate of liquidation, Ferruzzi substantially maintained its position. By July 11, that position accounted for nearly 60 percent of the open interest and was four times larger than the deliverable soybean stocks not already owned by Ferruzzi.

By July 11, the price of the July soybean future already had reached unusually high premiums relative to the August future. While it appeared that Ferruzzi could acquire any soybeans they needed more economically in the cash market than by demanding futures delivery, they continued to bid less than the delivery value in the cash soybean market. After carefully considering this situation, the Commission determined to constrain the hedge exemption of Ferruzzi by not considering as bona fide hedges certain long positions in the July or August 1989 soybean futures during the last three trading days in those contracts. Ferruzzi was formally notified of this decision on the morning of July 11, 1989, as was the CBT.

After the close of trading on that day, the Board of Directors of the CBT, acting on a recommendation from the exchange's Business Conduct Committee, determined that additional exchange action was needed to assure an orderly liquidation of the July future. It declared a market emergency and ordered a scheduled liquidation of all of the largest positions in the July soybean futures over the remaining seven trading days. This exchange action was taken according to exchange rules. The rules permit the exchange to institute timely remedies whenever it believes an orderly liquidation of a contract is threatened. The Commission thoroughly reviewed the events surrounding this emergency action and presented its findings to the House and Senate Agriculture Committees in September 1989.

Surveillance staff also has been examining closely the October 1989 stock market decline. The Commission continues to work closely with the SEC and other members of the Working Group to ensure the integrity of the country's financial markets.

DIRECT REGULATION

During the year, the Commission enhanced its oversight activities and increased direct regulation of exchange activities and programs. For example, the Commission concluded its review of the audit trail systems that exchanges implemented to comply with the fiscal year 1986 Commission regulation requiring execution times of all trades to be determined to the minute, instead of the thirty-minute period which was previously the standard. While each exchange met the initial implementation requirements established by the audit trail rule, the Commission found that each exchange still needed to improve the accuracy and verifiability of its system and to improve its use of trade timing information to better detect potential trade practice abuses

The Commission recently adopted rules dealing with trade practice procedures for collection and preparation of trading records, and barring individuals with disciplinary histories from serving on exchange disciplinary committees, governing boards and arbitration panels. Staff also completed a study of trading practices of broker associations and the Commission instructed the staff to propose rules to define broker associations and require registration of broker association members. The Commission will consider proposed regulations to that effect in late March. The Commission also will be proposing regulations regarding oral orders and opening and closing trading period procedures. The Commission staff also completed a study of dual trading. A dual trader is one who trades for both a customer's account and his or her own account within the same trading session. The study found that dual traders do not provide more liquidity or better executions than non-dual traders. Based upon these findings, in January of 1990, the Commission proposed a rule which would restrict dual trading. The Commission staff will continue analysis of data upon implementation of any rulemaking to ensure that the rule does not impose unexpected and unnecessary costs.

INTERNATIONAL ACTIVITIES

During the fiscal year, the Commission has moved forward in three specific areas important in the international arena.

Foreign Futures and Options.—For 1988 and 1989, the Commission approved applications from futures and options exchanges in Singapore, Australia, Canada and the United Kingdom to offer and sell various options contracts in the United States. These actions represent the first time the Commission has permitted the offer and sale of foreign option contracts to U.S. public customers since the options ban was imposed in 1978. The Commission also has granted an exemption to certain eligible firms located in those jurisdictions from the requirements to register with the Commission based on the Commission's determination that such firms are subject to comparable regulatory safeguards. Specifically, under its comparability program, the Commission, on a case-by-case basis, will defer to certain foreign regulatory requirements as substituted compliance with comparable Commission requirements.

Globex.—In February 1989, the Commission approved the Chicago Mercantile Exchange's proposed Globex screen trading system. Globex is the first domestic futures trading system to apply innovations in communications and computer technology to an automated international system for screen trading.

The system should provide a comprehensive audit trail indicating all order entries, modifications and executions to the nearest second. The added precision of such an audit trail should also enhance the ability of the exchanges and regulators to maintain the integrity of rapidly growing international markets.

Information Sharing Arrangements.—Efforts continued to increase cooperation and information sharing between the Commission and its counterparts in other counties. In September of 1988, the Commission announced that it had entered into a financial information-sharing memorandum of understanding (FISMOU) with the Securities and Investments Board of the United Kingdom, as well as certain futures industry self-regulatory organizations in the U.S. and the U.K.

The basic purpose of the FISMOU is to provide a framework for sharing information between the CFTC and the relevant U.K. regulator regarding the financial condition of U.S. futures brokerage firms with branch offices in the United Kingdom.

The memorandum is the first information-sharing arrangement directed specifically to routine sharing of financial regulatory information in deference to another jurisdiction's financial requirements. It is also an important step in the direction of developing improved information sharing and regulatory coordination across jurisdictional boundaries in times of crisis.

In the context of its regulatory program to protect U.S. customers trading on markets outside the U.S., the Commission has cooperative information sharing arrangements with federal and certain state governments of Australia, the government of Singapore, federal and certain provincial governments of Canada and with relevant regulatory authorities in the United Kingdom.

REAUTHORIZATION

The Commission is continuing to work with the Congress on reauthorization legislation. The Subcommittee on Conservation, Credit and Rural Development of the House of Representatives developed a CFTC reauthorization bill, the "Commodity Futures Improvements Act of 1989," which was approved by the House on September 13, 1989.

The Senate Agriculture Committee on November 2 approved a CFTC reauthorization bill that boosts CFTC's financial resources and strengthens CFTC oversight of self-regulation to help assure market integrity. The bill is currently waiting to be considered on the Senate floor. Both the Senate and House reauthorization bills are bipartisan efforts crafted by the respective Committees on Agriculture which address, among other things, concerns raised by the joint Federal undercover probe on the Chicago Mercantile Exchange and the Chicago Board of Trade.

REVENUES

Over the past few years there has been a call to create more revenues to fund the Commission's direct regulatory and oversight mandates. The President's fiscal year 1991 budget includes a new transaction fee proposal which would generate an estimated $41.3 million, a major portion of the Commission's annual budget. The reauthorization bill currently before the Senate Committee also includes language supported by the Commission to raise service fees. Furthermore, the Commission recently proposed a rule change which, if approved, would provide for the total recovery of the costs now incurred by the Commission in performing rule enforcement and financial reviews of the self-regulatory organizations. This fee alone would boost the total of service fees collected by the agency by over 40 percent. The Commission's anticipated service fees for fiscal year 1991 are approximately $1.4 million.

The Commission has also seen an increase in the fines assessed and collected as a result of administrative actions brought by our enforcement program. We believe that as we increase our efforts in this program these assessments and collections may continue to increase.

CONCLUSION

During the past year the Commission has been active in addressing a variety of issues with wide-ranging implications for the commodity futures and option markets. The events of the last year underscore the Commission's need to increase its resources more rapidly in the trade practice, surveillance and enforcement areas. The Commission is requesting an upgraded computer system, 595 staff years and $44,960,000 to oversee and regulate the U.S. commodity futures industry and enforce the law and Commission regulations.

I will be happy to answer questions from the Subcommittee.

TRANSACTION FEE

Senator BURDICK. Do you have an opening statement, Senator?

Senator GRASSLEY. No; I do not have an opening statement.

Senator BURDICK. Please describe the details of this proposal and explain how the fee would generate over $41 million in 1991? You know, the budget proposes a transaction fee on CFTC-regulated futures and options contracts to cover the cost of CFTC activities.

Dr. GRAMM. Excuse me, sir, what is the question?

Senator BURDICK. The 1991 budget proposes a transaction fee on CFTC-regulated futures and option contracts to cover the cost of the activities. Could you describe the details of this proposal and explain how this fee would generate over $41 million in 1991?

Dr. GRAMM. Yes; the $41 million transaction fee proposal is in the President's budget and was based on a volume of approximately 375 million contracts trading. It would be an 11-cent-per-round turn transaction fee that would generate the $41,400,000 amount.

Senator BURDICK. If the proceeds from such a transaction fee are deposited in the general fund of the Treasury, how could these fees directly benefit CFTC?

Dr. GRAMM. Yes; the fees would be directly deposited into the Treasury's account. It is viewed in the budget process as an offset.

Senator BURDICK. It is money to be placed right in the Treasury?

Dr. GRAMM. That is right. It would not come directly to the CFTC.

Senator BURDICK. Is that good?

Dr. GRAMM. That is how our fees have been handled. All fees and money that we collect from penalties go directly to the Treasury.

Senator BURDICK. Has the legislation to establish a transaction fee been introduced?

Dr. GRAMM. Not to my knowledge. The legislative proposal to implement this transaction fee has not been sent to Congress yet.

Senator BURDICK. Do you expect that it will be done?

Dr. GRAMM. I expect that it will be part of the administration's legislative package. It was not part of the CFTC reauthorization proposal.

Senator BURDICK. The Senator from Iowa.

JURISDICTIONAL CHANGE

Senator GRASSLEY. There has been quite a battle waged in the press between the Treasury, the Securities Exchange Commission, and CFTC with regard to the question of whether or not the agency should control the regulations of futures and stock trading.

I want to know what your view of that is, and specifically, whether you agree that jurisdiction over stock trading should be brought under the umbrella of one regulatory agency?

Dr. GRAMM. Senator, I am glad you asked that question. Under the regulatory structure that has existed and exists today, we have become the world leader in the futures markets. Our markets are the largest, most innovative, most liquid, as well as the oldest in the world. Everyone around the world is copying what we are doing.

My question is, What benefits would a jurisdictional change have? In all the discussions that have taken place people have not identified any real issues or any real problems that, on careful analysis, would be solved by a jurisdictional change. What would be the benefit?

The question that I have is: Would the needs of the users of these markets be met with a jurisdictional change? And that question has not been addressed.

In the current regulatory structure not only have we become world leaders but we have been very innovative. The industry has been very innovative and produced a lot of products that have been valuable for firms, institutions, and the economy.

I think the question we really have to address is: What is best for the economy and international competitiveness? My concern is that any jurisdictional change could weaken the agency and harm our position as world leaders in the financial futures markets.

Senator **GRASSLEY**. Well, is there any problem, as you consider this whole issue, with the possible lack of CFTC oversight?

Dr. **GRAMM**. The CFTC, as you know, has oversight over all futures and options on futures. We monitor stock index futures the same way we monitor other hedging instruments. Our expertise is important and has been one of the reasons that our markets have become the world leader in terms of contract volume and innovation.

Senator **GRASSLEY**. But you do not see any problem in that regard then?

Dr. **GRAMM**. No; as a matter of fact.

Senator **GRASSLEY**. All right. In view of these battles that are going on, I suppose, behind the scenes in the bureaucracy at the highest levels as well as in the press, what impact have you seen, if any, on the morale of employees in your agency? Has there been any impact in the quality of work?

I have heard some expression of concern about this. And I want to ask you as the chairman for any comments.

Dr. **GRAMM**. Obviously, when there is a recurring discussion involving jurisdictional issues it has an effect on the morale of the staff. I am concerned that the staff's morale is lowered by these discussions. But Commission staff continues to work hard to monitor these markets effectively, even in the face of this kind of discussion.

Senator **GRASSLEY**. You know, I am reminded of the Chicago Sting Operation, maybe even other things that have been brought to our attention that demonstrates the need for strong supervision from your agency.

We can ill-afford to have oversight activities held in limbo by these ongoing controversies that might affect morale, and you seem to indicate that they do. I guess this is nothing more than an opinion on my part, but I want to hope that we can resolve this question.

Whether it is just people coming to the conclusion that nothing more should be done, or somebody comes to a strong conclusion that what is thought about is an entirely wrong approach. And then to get on with the work necessary to assure that the abuses that were made public by that sting operation do not occur again.

Dr. **GRAMM**. I heartily agree with that.

DUAL TRADING

Senator **GRASSLEY**. The Senate Agriculture Committee's futures trading reauthorization bill includes a section which gives the CFTC the authority to ban dual trading if an exchange fails to establish an audit trail within 1 year.

Now the CFTC has proposed rules banning this sort of dual trading and ban it outright, as I understand. A number of my constituents have expressed concern about such a ban. I want to say at this point that I am not sure that I share my constituents' concerns on it. I have not looked into it as fully as I should to make that determination yet. But since these concerns have been raised to me, I wanted to bring them up with you.

First, I would like to have you explain to me the CFTC's perspective as to why you have chosen to go so much further than the Senate bill?

Dr. **Gramm**. The dual trading ban is only a proposal at this point with a comment period that closes in the middle of April. The Commission decided to propose a dual trading ban because we did not feel that the audit trail could detect the various trading abuses that dual trading could foster. That is something we learned from the undercover investigation.

We will be looking to the comments to determine if our initial view is correct or if there is evidence that supports an audit trail opt-out.

Senator **Grassley**. OK. Then along that line, I guess my point would be more a strategic approach, than whether not in substance you are right or wrong.

I would like to know whether or not you think that the CFTC loses some important leverage by banning dual trading right now. In other words, if it is important to create audit trails, will not holding the ban as a possible sanction be useful? Or maybe from another approach, is it the case that the audit trails might not be necessary, if you ban dual trading outright?

Dr. **Gramm**. Audit trails are very necessary. However, there are a number of other abuses that are not captured by the audit trail. Consequently, we do not think that the audit trail is the be-all and end-all to detect and deter all trading abuses.

Neither do we expect that banning dual trading will solve all the problems either. Each is a piece of a large puzzle. What we are doing is proposing a ban with a 1-year implementation program for a limited number of contracts. We are doing this to ensure that the proposed ban is appropriate and will address the problems without unintended side effects.

Senator **Grassley**. Thank you, Madame Chairman.

Mr. Chairman, I have no further questions.

BUDGET INCREASE

Senator **Burdick**. The budget proposes a 21-percent increase in the appropriation for the Commodity Futures Trading Commission to provide increased surveillance of futures markets.

Do you believe the magnitude of this increase represents a shift in the emphasis of the CFTC from strictly an oversight agency to a regulatory agency?

Dr. **Gramm**. I think that is part of it. This is a large increase; however, I would stress that the real increase is 15 percent. That is the real growth. It reflects the Commission's desire to put more people on the floors of the exchanges and to spend more of our resources on trade practice and other enforcement efforts.

Over the past year, we have written a large number of rules to address the problem, so there is more direct regulation of the exchanges and our budget increase reflects that.

Senator BURDICK. How have factors such as trading volume growth, institutional investing, international market development, and drought affected the role of the CFTC in monitoring futures trading?

Dr. GRAMM. You have just outlined the very busy year that we had last year. All of those affected us very much. As you know, trading volume has increased some 90 percent over the last 5 years.

We have been able to monitor these markets effectively with not only somewhat increased staff but also with increased computer support which enhances our efficiency. But again the drought did have an effect as did the growth in the markets. Our budget request reflects the need for additional resources to continue to monitor those markets effectively.

DIRECT REGULATION

Senator BURDICK. What efforts has CFTC undertaken to increase direct regulation of the futures exchanges?

Dr. GRAMM. Well, we have increased floor surveillance. That means we have increased the number of people who are actually on the floors of the exchanges watching and monitoring the floor for trade practice abuse.

We have written rules to enhance the audit trail system, and to make it more difficult for traders to alter their records. We are requiring traders to turn in their cards more often to prevent alteration at a later date. We are requiring the exchanges to monitor out-trades more carefully.

We have proposed a ban on dual trading. And we have also written a rule barring members with disciplinary histories from serving on the committees of the exchange. There are other rules as well. This is a partial list.

AUDIT TRAIL

Senator BURDICK. Dr. Gramm, would you please tell the committee in what specific ways you believe the audit trails systems of the exchanges can be improved.

Dr. GRAMM. The exchanges have been improving their audit trails over the years, but we have made a number of suggestions to them. This past year, our emphasis has been on the preservation of the source documents, and to prevent alteration of source documents, which are part of the audit trail, as well as more aggressive use by the exchanges of the audit trail information to detect and deter trade practice violations. All those measures are important. Verifiability of the information is also important.

Senator BURDICK. Is it realistic for us to expect 30-second audit trail systems with accuracy?

Dr. GRAMM. I think a 30-second audit trail could be difficult to achieve. On the other hand, there are some technologies, such as a screen trading technology, for example, or hand-held computers that could generate an audit trail that is accurate to even less than

30 seconds, but under the current systems, 30 seconds may well be costly to achieve.

There are new technologies that are being developed that could result in even more accurate audit trails than 30 seconds. There are still a lot of unknowns.

Senator BURDICK. If I interpret your answer correctly, you are saying 30 seconds is quite well done, but it might be better in the future. It that it?

Dr. GRAMM. That is right. Under current technologies, I think 30 seconds would be very difficult, but there are other technologies that are being developed as well.

Senator BURDICK. On an average, how many transactions are audited daily?

Dr. GRAMM. How many transactions are there that are audited each day? I am not certain of that. I will have to get back to you on that.

Senator BURDICK. If you could supply that for the committee within the next week?

Dr. GRAMM. Yes; I certainly will.

[The information follows:]

I cannot give you an exact number. Commission staff receive audit trail data from the exchanges on a monthly basis, and has received it on a more frequent basis, as-needed, in machine readable form. These data are used by our Divisions of Trading and Markets and Enforcement routinely to detect possible illegal trading activity. In this regard, Commission staff uses its in-house designed automated trade surveillance system, referred to as the Exchange Database System, which is programmed to isolate for further investigation possible instances and patterns of illegal trading activity. This system also is used to develop referrals of suspicious trading to the Division of Enforcement and the exchanges and to reconstruct trading in connection with market studies and analyses. For example, the information available through the audit trail and the daily large trader reports allowed the Commission to expeditiously analyze the market events around the October 1987 stock crash. These same data were relied upon by the Brady Commission in its analysis of markets right after the crash.

SHIFTING STOCK INDEX FUTURES JURISDICTION

Senator BURDICK. Senator Harkin, do you have some questions?

Senator HARKIN. Thank you Mr. Chairman. Just a couple.

Dr. Gramm, there's been a lot of talk about shifting jurisdiction over stock index futures to the SEC. If the CFTC lost that jurisdiction would it affect the ability of the CFTC to regulate commodity futures in agricultural commodities?

Dr. GRAMM. Most definitely; the expertise of the Agency is used to monitor all futures. If part of the Agency were to be shifted away or a large portion were to be shifted away, the question is whether or not there would be a sufficiently large critical mass left at the Agency to effectively monitor those markets. The Agency would be decimated.

Senator HARKIN. So it would affect the CFTC's ability?

Dr. GRAMM. Yes.

REAUTHORIZATION BILL

Senator HARKIN. Our committee recently reported S. 729, reauthorizing the CFTC and tightening regulation of commodity futures trading. It is a tough bill. I would like to ask you: Does it make any sense to hold up passage of that bill during this debate on the jurisdiction of the CFTC or should we move ahead with that bill. Do you have any thoughts on that?

Dr. **Gramm**. I do have some thoughts on that. There are many important authorities in that reauthorization bill that the Commission has requested and needs for effective oversight of the exchanges as well as to enhance our ability to cooperate with international regulators. We would very much like to have those authorities so we can proceed effectively with what needs to be done.

Jurisdictional issues, I think, should be addressed and discussed fully to ensure that whatever is done would have some real benefits and not have real costs. And that is a much longer process, in my view.

Senator **Harkin**. Thank you very much.

Thank you, Mr. Chairman.

Senator **Burdick**. We will now hear from the gentleman from Mississippi.

FUNDING NEEDS

Senator **Cochran**. Thank you, Mr. Chairman.

Welcome to the committee, Dr. Gramm. We are glad you are here and appreciate your cooperation with this subcommittee.

We are, of course, interested in the debate that is going on involving the SEC and those in the President's Working Group regarding the possibility of reforming the way regulations are developed and administered on the exchanges in Chicago and elsewhere that presently come under the jurisdiction of CFTC.

But this morning I think our main role is to focus on the budget needs—the funding needs of the Commission as it tries to carry out its functions that currently are required of it by the law. So, that is my question. Do you think the budget that has been submitted to us reflects the needs of the Commission? Is there something that is not in the budget material that has been submitted that we need to know about regarding the funding needs of the Commission?

Dr. **Gramm**. Well, I believe that what we have presented to you, that is in the President's budget for fiscal year 1991, is adequate and all there, just as we have stated. And it is needed, very much so.

Senator **Cochran**. I know that from time to time, the CFTC has been included in supplemental appropriation bills to take care of emergency needs. There is a supplemental request, as I understand it, of $3,655,000 that is pending now.

Dr. **Gramm**. That is right.

Senator **Cochran**. Has that been revised or is that going to be sufficient to carry out the requirements?

Dr. **Gramm**. The supplemental request would be sufficient for the interim, for the fiscal year 1990, and we have submitted it to you as well as to OMB.

Senator **Cochran**. Basically, as I understand it, what you need it for is additional staff. Is that right?

Dr. **Gramm**. That is right. And for a computer upgrade as well. There are two elements to the supplemental.

STOCK INDEX FUTURES

Senator **Cochran**. I am not going to prolong the hearing by going over questions that have been asked. I understand there has been some discussion about the impact of changing the regulatory structure.

I guess one question I have is this: Has anybody said the SEC would do anything different from what the CFTC has done in terms of regulating stock index futures?

Dr. **Gramm**. Well, that is a very good question. It is not clear what would be different. My concern is that if stock index futures were to go to the SEC, they might meet a very hostile regulatory environment there, with substantially higher margins or other regulations. SEC has opposed stock index futures in the past, and my concern would be that the hedging and other needs of the users of futures may not be met.

Senator **Cochran**. Or they could just do away with the trading of those futures. Could they or could they not?

Dr. **Gramm**. My concern is that trading in the futures could be indeed stifled and hurt by a jurisdictional change, and that would not serve the futures markets or the economy.

INTERNATIONAL COMPETITION

Senator **Cochran**. Would some other exchange in some other country then start trading stock index futures in the United States?

Dr. **Gramm**. Most definitely. International competition is very real. Every other country is copying the stock index futures and financial futures markets of the United States.

Senator **Cochran**. And there is nothing to prevent U.S. investors from buying those futures on foreign exchange markets; is there?

Dr. **Gramm**. That is right. On certain foreign market exchanges, we have new agreements that would allow U.S. customers to purchase futures and options from other countries.

Senator **Cochran**. And if those foreign exchanges ended up having the trades being made there, that would be totally outside the jurisdictional control of any U.S. Government agency. Is that not correct?

Dr. **Gramm**. Yes; that is an important point. The point is that stock index futures and financial futures are valuable and useful instruments for firms and institutions in this country and, therefore, important for the economy. They will be sold, they will be traded somewhere. If it is not here, they will be bought from overseas, and then it will be even more difficult to know who is trading them. For example, who is trading and what the impact might be if they then come back and arbitrage in the U.S. markets.

Senator **Cochran**. Thank you very much for being here and testifying. We appreciate your cooperation with the committee. I think you are doing a good job, incidentally.

Dr. **Gramm**. Thank you.

SUBMITTED QUESTIONS

Senator **Burdick**. Well, thank you Dr. Gramm. This concludes your portion of this hearing. You will have additional questions in writing, and we would ask you to respond to them in writing within 5 days.

Dr. **Gramm**. Thank you. We would be happy to.

[The following questions were not asked at the hearing, but were submitted to the Agency for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR BURDICK

CFTC--INDEPENDENT AGENCY STATUS

Question: The President's working group and others have examined whether jurisdiction of the futures industry and CFTC might be more properly served under the Securities and Exchange Commission. What is your opinion of this suggestion? In your opinion should CFTC remain an independent agency? Why?

Answer: I believe the CFTC should remain an independent agency. Under the current regulatory regime, the U. S. has the largest, oldest, most liquid and most innovative futures markets in the world. No problem has been raised that has been substantiated by hard, empirical evidence. There has been little discussion of what problems any proposed jurisdictional changes would address, let alone a discussion of what unintended consequences might occur because of proposed jurisdictional changes.

Question: What factors distinguish oversight of commodity futures from securities trading? Should futures and securities be regulated by a single agency? What effect could a single regulator have on the competitiveness of commodity futures?

Answer: The Commodity Exchange Act reflects the special risk-shifting function of futures transactions and provides market and customer protections distinct from those applicable to securities and other cash markets. For example, every futures contract must serve an economic purpose and must be designed so that it is not susceptible to price manipulation. The SEC has no analogous standards. Also, like any cash market regulator, the SEC has a tendency to favor policies that will foster stable or higher prices. A futures market regulator, on the other hand, must be price neutral. In addition, the CEA requires segregation of customer funds, establishes large trader reporting systems for daily market surveillance and provides a reparations forum for customer complaints. Currently, there are no counterparts in securities law to meet these special requirements to monitor futures market activities. In fact, one combined regulator for futures and securities markets might be to the detriment of the futures markets since such a superregulator would most likely be dominated by the securities interests. In such a case, securities market interests would inevitably be served before those of futures markets

Question: Has the working group made specific suggestions on how the SEC would regulate stock index futures different from CFTC?

Answer: The only item that has been discussed with any specificity by the Working Group is margins for stock index futures. SEC Chairman Richard Breeden has suggested minimum margins of 20%. Such a margin level for stock index futures is significantly higher than futures margins for comparable contracts trading in foreign jurisdictions. Currently, the highest foreign stock index futures margin is 9 percent in the Japanese market.

ENFORCEMENT, SURVEILLANCE, AND CONTRACT MARKET ACTIVITIES

Question: Of the 23 staff proposed for trade practice enforcement, how many would be assigned to assist in review of trading records necessary to investigations of trade abuses?

Answer: The Commission's budget request for fiscal year 1991 provides for 23 additional staff years for the Enforcement division as a whole. Five of those staff years are allocated specifically to floor surveillance, which will include reviews of trading documents and other investigative activity stemming from the Commission's floor surveillance pilot program. In addition, other Division attorneys and investigators will work on trade practice investigations and prosecutions, which are among the highest priorities in the Enforcement division. Such matters involve extensive review of trading documents, and historically have consumed approximately 15% of the Division's professional staff time.

Question: In what way is the National Futures Association helping the industry and CFTC to eliminate fraud by introducing brokers?

Answer: The National Futures Association helps the industry and CFTC eliminate fraud by introducing brokers in several ways. In early 1988 NFA established a Promotional Material Group to review written and televised commodity sales promotional material from a wide variety of sources. Such sources include over twenty local and national newspapers and a review of commercials shown on the Financial News Network. In addition to the review of media advertisements, NFA conducts a client solicitation program whereby NFA staff members receive sales pitches by telephone from all categories of NFA members, including IBs. Information developed from these sources is used to target members for audits and investigations and to support disciplinary actions.

NFA conducts a major program of direct audits of introducing brokers. Such audits include sales practices and financial requirements. In 1989 NFA conducted 143 audits of independent IBs, which have separate capitalization, and 113 audits of guaranteed IBs whose financial obligations are guaranteed by NFA member FCMs. In 1988 NFA conducted 146 audits of independent IBs and 107 audits of guaranteed IBs.

NFA requires members to closely supervise the activities of IBs. Member futures commission merchants are required to supervise all guaranteed IBs. IBs which carry branches are required to supervise the activities of such branches. At the urging of the CFTC, on November 7, 1988, NFA issued a notice of what such supervision requires. Required supervisory procedures include: the maintenance of a written procedures manual; a home office review of all significant customer complaints; close supervision to ensure that all sales personnel are properly registered; adequate controls of all customer documents; and on-site review of guaranteed IBs and branches by home-office personnel. NFA audits include a review to determine that such procedures are in place. In a 1989 review of NFA's program, Commission staff recommended further enhancements in NFA's IB programs.

When required, NFA takes disciplinary action against IBs. In 1989, of 36 complaints issued 18 were against NFA IB members.

Question: Why does the CFTC find it necessary to add 17 staff for oversight of the Contract Markets and Registered Futures Association subprogram?

Answer: The revised fiscal year 1991 budget request calls for 17 additional staff years to be added to the Division of Trading and Markets, Contract Markets and Registered Futures Association subprogram. The staffing increases are necessary to enable the subprogram to devote additional resources to floor surveillance and trade practice oversight. Specifically, the Division of Trading and Markets intends to allocate seven of the requested staff years to floor surveillance as part of the program developed with the Divisions of Enforcement and Economic Analysis to maintain a continuous presence on the floor at virtually all of the contract markets. The remaining 10 staff years will enable the subprogram to increase significantly the number of trade practice investigations conducted directly by Commission staff which will likely increase the number of referrals to the exchanges and the Division of Enforcement based on review of trade data.

Question: Your budget plan requests additional staff years for the Commission to continue "cooperative enforcement" activities. With what other government and private entities and for what specific enforcement activities will these new staff be employed?

Answer: The Commission plans to continue its long-standing commitment to cooperative enforcement activities, but its budget request does not earmark a specific number of the requested new staff years for this purpose. "Cooperative enforcement" activities include a wide range of methods that the Commission uses to assist and encourage state and other federal law enforcement agencies in identifying, investigating, and prosecuting commodity and commodity related frauds. Such agencies include the Securities and Exchange Commission, the Federal Bureau of Investigation, the Department of Justice, the Federal Trade Commission and the Postal Inspection Service. In specific investigations and prosecutions of commodity-related abuses, the Commission's Division of Enforcement shares information and provides staff support to other law enforcement agencies where appropriate. In addition, over the last six years the Commission has filed over 30 enforcement cases with state law enforcement agencies. Commission staff also participate in groups and task forces such as the inter-agency Securities and Commodity Fraud Working Group, chaired by the Department of Justice, which seeks to encourage and expedite prosecutions of commodity related abuses. The Commission also routinely provides specialized training for federal and state law enforcement agencies and foreign regulators. For example, since 1984, the Commission's Division of Enforcement has operated a specialized unit called the State/Federal Liaison Unit to focus its efforts in this area.

Question: In what ways are investigation and enforcement staff activities distinguished from market floor surveillance activities?

Answer: Market floor surveillance activities are conducted by the Commission's Divisions of Trading and Markets and Economic Analysis, and by staff assigned to the inter-division floor surveillance pilot program, begun last year, which includes staff from those divisions and the Division of Enforcement. Such market surveillance is general. That is, it is typically not focused on particular individuals or firms. Rather, it is a method of obtaining information for regulatory purposes and identifying patterns of trading or conduct that may suggest possible wrongdoing and may warrant a more focused inquiry. Such surveillance may at times result in referrals to the Enforcement Division, but is not intended to develop a full factual record that is legally sufficient in a trial setting. In contrast, enforcement activities are undertaken by Division of Enforcement attorneys and investigators who determine whether to recommend initiating a formal investigation and the filing of formal law enforcement proceedings in federal court or before the Commission and its Administrative Law Judges. Enforcement investigations are focused on conduct by particular parties. The investigations seek to develop legally admissible evidence that could prove in a court or administrative proceeding that the Commodity Exchange Act or Commission regulations have been or are being violated.

PENALTIES AND FINES

Question: What amount in fines does the Commission estimate it will collect as a result of its enforcement efforts in 1991? Will these collections be paid directly to CFTC to pay for its on-going operations?

Answer: The Commission estimates it will collect $2,100,000 in civil penalties as a result of its enforcement efforts in 1991. These collections are paid to the U. S. Treasury. None of the funds collected are returned to the Commission.

Question: In 1989, over $7 million in civil penalties were imposed by CFTC through administrative proceedings. How much of this amount has actually been collected? In cases pending appeal, who pays court costs--the federal government or the original defendant?

Answer: In fiscal year 1989, $7,100,000 in new civil penalties were imposed by the CFTC through administrative proceedings of which $5,343,000 or 75 percent has been collected. Of the remainder, $1,135,000 or 17 percent is on appeal and not yet due and only $497,000 or 7 percent is currently in the process of collection efforts.

In a case appealed to the Commission and subsequently appealed by the respondent to a federal circuit court of appeals, each party generally pays its own court costs and legal fees. However, an appeals court may assess court costs in favor of the party prevailing on appeal.

DUAL TRADING

Question: What is the current status of the Commission's regulations on dual trading. When do you expect them to be finalized?

Answer: Proposed Regulation 155.5, which would restrict dual trading by floor brokers in certain commodities during a 12-month implementation period, was published in the Federal Register on January 11, 1990. The notice provided for a 90-day comment period, and posed both specific and general questions about the proposed regulation.

At present, the Commission is reviewing comments about the proposal from the public. The Commission has received a number of requests for an extension of the comment period to provide interested parties more time to evaluate the Commission's November 1989 Dual Trading Study and to analyze the proposed regulation. The Commission currently is determining whether to grant such an extension.

Question: What is your opinion of the dual trading provisions of S. 1729, the Futures Trading Act of 1989.

Answer: The Commission supports the general concept of the Senate bill, and the Commission's proposed dual trading restriction is generally consistent with the intent of that bill. The pending legislation would provide for certain exceptions to a restriction on dual trading by floor brokers, as does the Commission's proposal. These exceptions to a restriction on dual trading include, among others, a customer opt-out and, in the proposed Senate bill an audit trail opt-out if the trade monitoring system fully satisfies the new accuracy standards put forth in the Senate bill.

The Commission's proposed dual trading restriction does not provide for an audit trail exception.

The Commission believes certain direct forms of abuse of a customer order, such as trading ahead of or against a customer order, may be more detectable with effective audit trail systems. However, certain other forms of customer order abuse, such as the withholding of customer orders, are not as easily isolated by even the most accurate of audit trail systems. The enforcement actions, indictments, and plea agreements resulting from the Chicago undercover investigation of floor trading practices indicate that some brokers have used their dual status to facilitate abuses of customers orders; these abuses suggest a manner in which illegal conduct which goes undetected by audit trail systems may occur. Moreover, the substance of the indictments and plea agreements indicate that audit trail systems, however effective, cannot address all types of illegal activity facilitated by dual trading.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

FOOD AND DRUG ADMINISTRATION

STATEMENT OF JAMES BENSON, ACTING COMMISSIONER

ACCOMPANIED BY:

- **JOSEPH A. LEVITT, DIRECTOR OF EXECUTIVE OPERATIONS**
- **MARGARET J. PORTER, CHIEF COUNSEL**
- **SHARON SMITH HOLSTON, ASSOCIATE COMMISSIONER FOR MANAGEMENT AND OPERATIONS**
- **FRANK P. CLAUNTS, DIRECTOR, DIVISION OF FINANCIAL MANAGEMENT**
- **DENNIS P. WILLIAMS, DEPUTY ASSISTANT SECRETARY, BUDGET, DEPARTMENT OF HEALTH AND HUMAN SERVICES**

INTRODUCTION OF WITNESSES

Senator **BURDICK**. We will now hear from the Food and Drug Administration. With us to present testimony is Mr. James S. Benson, Acting Commissioner of FDA.

The budget request for the Food and Drug Administration totals $528 million, a $60 million reduction from 1990. However, the budget includes a proposal to generate $157 million from new user fees, which would serve to increase the budget for FDA by roughly $100 million.

We have your statement, Mr. Benson. It will be made a part of the record in full. I would ask you to summarize it at this point, and make any additional comments you would like to make.

Mr. **BENSON**. Thank you Mr. Chairman. I appreciate the opportunity to be here to support our requests. What I would like to do is introduce the people who are here with me. To my far right is Mr. Dennis Williams, Deputy Assistant Secretary for Budget from the Secretary's Office; to my immediate right is Margaret Porter, Chief Counsel for FDA; to my immediate left is Joe Levitt, our Chief of Staff; to his left is Sharon Holston, Associate Commissioner for Office of Management Operations; and to her left, Mr. Frank Claunts, who heads FDA's Division of Financial Management.

SUMMARY STATEMENT

As you requested, I will briefly summarize my opening statement, if I may.

Let me start by saying that last year was a difficult one for FDA. We had the irregularities in the generic drug area, which were troublesome to all of us. Several firms, three employees, have been convicted of wrongdoing. For that we are embarrassed, and we are pulling out the stops to correct that situation.

I am happy though to report that the routine testing as well as the additional testing that we have done as a result of those concerns have shown the Nation's drug supply to be safe.

You have already provided us with funds, in part, to deal with the generic situation. And with your continued support, we fully expect to strengthen that program as well as other programs to assure continued public health, good solid public health, across the board for all the products that FDA is responsible for.

The generic drug situation, combined with the Chilean fruit tampering problem, as well as some lesser crises, caused us to divert a lot of field resources into those specific areas, and the impact of that, as an example, was that our domestic inspections were down 32 percent from 5 years ago. So it seems like year after year, we have those kinds of problems in the field. We always have to divert resources in order to deal with them. And so that is a concern.

Another major item in the budget is a 125-FTE increase for the field resources to help overcome that perpetual diversion of those resources.

Another major area that we want to focus on is AIDS. That continues to be a challenge. We are happy to report that we approved six products for AIDS therapies last year. We were able to expand distribution in several other areas. Our request for increases for AIDS this year is less than last year's, but we feel that we still need to add resources in order to keep up with the ever-increasing number of applications for new drugs, new devices, and new therapies in the AIDS area.

I am pleased to report that we have shown steady progress in our new product review, which also has been a concern of the committee. For example, last year our list of overdue new drug applications was down to 67. That is down from 71 the year before, and down from 116 the previous year.

In the area of medical devices, we had a record 7,000 notifications to market last year, and I am pleased to report that at the end of the year we had no overdue notices to review.

Another concern of the committee over the years has been in the orphan drug area. Last year we approved nine orphan drugs, which we are pleased to report. We had a budget of $5.4 million in grants. We were able to award grants to 21 recipients. This year, in 1990, our grant budget is $7.5 million, and we expect to award 35 grants.

Another major request in the budget is in the area of seafood. We have a $9 million increase in appropriations. This will enhance what I consider to be an already well-running seafood program. We expect to increase our inspections, our sampling, both foreign and domestic, as well as our research areas.

We also plan to continue to support the State programs across the board in the seafood area, especially in the shellfish area. So we look forward to an even safer seafood supply in 1991.

If I may turn to facilities for a moment, we are in our final planning stages now. Our new AIDS building is sited on the NIH campus, so we hope to get that under way very shortly.

I am also happy to report that we will be moving into our Beltsville facility at the end of the year. As you know, that has been a very difficult problem to resolve with the contractor out there. Long range-wise, though, we still are deeply concerned about our headquarters facilities. We are spread out over a large area. We are constrained in a number of ways. That is detrimental to our program activities.

We are going to be working closely with GSA in the coming year. We have already agreed for them to do a detailed program of requirements, and we hope that will form the basis to allow for a solution to the headquarters problem.

Finally, I would like to recognize that the committee has been concerned with user fees. Because of the Federal deficit, the administration believes that user fees are an important way to reduce the burden on the taxpayer. And for that reason, we are requesting the user fee that you mentioned in your opening statement, sir.

PREPARED STATEMENT

With that, let me stop the summary, and we will be happy to try to answer any questions that you may have for us.

[The statement follows:]

STATEMENT OF JAMES BENSON

Mr. Chairman, I thank you for the opportunity to appear before your subcommittee today to support the Food and Drug Administration's budget request for 1991. I would first like to introduce my colleagues at the table with me * * * other members of my staff are also present to respond, if necessary, to specific questions and interests of the Committee.

I would like to review our activities this past year in relation to the selected increases we are proposing in our 1991 request.

First and foremost, FDA's performance of its regulatory responsibilities was severely challenged this past year by the difficulties associated with generic drugs. The agency is pursuing a plan to correct the problems found and we are confident that with your continued support, we will be successful. I will be bringing you up to date on this situation a little further on in this statement.

My remarks will contain a brief discussion of our need to restore our capacity in the field to deal with inspection and enforcement. I would also like to briefly summarize FDA's activities with regard to AIDS and AIDS-related diseases. In addition, I want to discuss the improvement of our evaluation of drugs, biological products, and medical devices for safety and effectiveness, our orphan product activities, and our efforts to combat the problems associated with food safety, especially seafood. Finally, I would like to report on our progress with regard to FDA's facilities needs.

GENERIC DRUGS

The generic drug industry, and FDA's regulation of that industry, came under intense public scrutiny this past year as a result of revelations concerning improprieties on the part of several FDA employees, as well as fraudulent conduct by certain drug firms who falsified or misrepresented information in their applications. These incidents led to the development of a comprehensive plan of action which incorporated two goals: enhancement of the agency's capacity to ensure that the American public has access to quality generic drugs, and fortification of the generic drug approval process in order to maximize system integrity and fairness, providing adequate safeguards against fraud. This plan was announced by Secretary Sullivan last August, and our budget request includes resources to implement it both this year and in 1991.

The plan includes increased, continuing surveillance of the generic drug industry, including both plant inspections and product testing, combined with investigations to assure information provided to us is valid. Also included are enhanced application review activities as well as the establishment of an ombudsman function to provide for resolution of disputes with firms—not just generics but all the industries we regulate. The cost of the additional resources necessary to support this plan in 1990 was estimated at $17.9 million and 185 FTE's, of $4 million was included in FDA's 1990 appropriations. We are requesting supplemental spending authority for the balance, $13.9 million, to be offset by fees to be paid by the industry. Appropriation language is being proposed which will permit the Secretary to establish and implement fees for applications to market generic drugs and annual fees to holders of approved applications to support increased inspections and product monitoring. We believe that the industry will benefit from the restored public confidence that sustained and enhanced FDA efforts will assure.

Although investigations to date have revealed the involvement of only a small number of firms in intentional deceit, and FDA's testing has not revealed widespread safety concerns, the problems discovered demand that we sustain an increased level of surveillance over all parts of the process. FDA is requesting a further increase of $10.2 million in 1991, primarily for improved application review activities and for applied research into complex bioequivalence issues, which will be offset by increased user fees.

RESTORING FDA'S FIELD CAPABILITIES

Reduced levels of personnel over the last decade, coupled with the demands of the AIDS epidemic, the need to increase import activities, and emergencies such as the Chilean fruit tampering incident and urgent generic drug investigations, have had a serious impact on our ongoing monitoring activities. It became necessary to delay many scheduled inspections of drug and device firms, reduce the number of food establishment inspections, and reduce the level of regular laboratory sample analyses to screen for contaminated products. In 1989, we conducted approximately 18,000 inspections in this country, a decrease of 32 percent from five years earlier.

Even if the current rate of emergency problems were to decline in the near future, we would still need to provide for restoration of our field resources just to sustain reasonable levels of surveillance over the many products that we regulate, and to deal with problems which may be less immediate than the crises that have occurred over the past year. We are requesting an increase of $11.9 million and 125 FTE's to support this restoration of essential field capabilities, and thus work to prevent future product emergencies. I should add that included in this increase is $2.5 million to replace obsolete laboratory equipment to enable us to take more rapid advantage of new technologies as they come on the market.

AIDS

FDA continues to be very concerned about the individuals who are suffering from the devastating effects of AIDS and HIV diseases. We remain steadfast in our resolve to do all that we can to find a way to alleviate their suffering and provide hope for the thousands infected with this deadly virus. FDA's contribution in the fight against AIDS involves primarily our responsibilities for the premarket review of new drugs and biologics, including vaccines. FDA also plays a major role because of our responsibility for approving diagnostic and other testing products, and our duty to ensure the safety of the nation's blood supply. In addition, we are concerned with the safety and effectiveness of AIDS-related medical devices such as medical gloves and condoms. To ensure that newly developed products reach AIDS patients as quickly as possible, new procedures were instituted at FDA for reviewing these applications, and we have formalized procedures for making investigational drugs more widely available to those who are desperately ill. In July 1989, an expanded computerized listing of information on AIDS-related clinical trials became available to the public via a toll free telephone number. In September, 1989, this information was also made available to the National Library of Medicine subscribers through the AIDSTRIALS data base. This AIDS Clinical Trial Information Service, a cooperative effort of the FDA, the Centers for Disease Control, the National Institute of Allergy and Infectious Diseases, and the National Library of Medicine, provides the public with important basic information and guidance on clinical trials.

Coordinated expansion of efforts by industry, academia, and government to develop diagnostics, treatments, and vaccines for AIDS and HIV related illnesses continues to result in a growing number of product applications submitted to FDA for evaluation and licensing. As of November 1, 1989, the total number of AIDS-related investigational new drug applications (IND's) received for the treatment, diagnosis, and prevention of AIDS and AIDS-related diseases has risen to 295 from 59 in 1985, an increase of 400 percent. Zidovudine (commonly known as AZT), the only drug approved to treat HIV directly, has been approved in syrup form for treatment as well. Six other drugs have been approved for the treatment of AIDS-related conditions. These include both the injectable and aerosolized forms of the drug pentamidine to treat pneumocystis carinii pneumonia (PCP), an often fatal opportunistic infection associated with AIDS; two alpha-interferons to treat Kaposi's Sarcoma, a cancer resulting from AIDS infection; ganciclovir to treat AIDS patients with sightthreatening cytomegalovirus (CMV) retinitis; and fluconazole to treat two serious AIDS-related fungal infections.

While a product is still being studied for safety and effectiveness, we have established procedures whereby, in some cases, the product can be made more widely available under what is called a "Treatment IND." Treatment IND protocols have been approved allowing for expanded distribution of the experimental therapies Dideoxyinosine (ddI) for the treatment of AIDS directly and r-erythropoietin for the treatment of anemia which often results from AIDS and from the administration of AZT. Most recently, a treatment IND has been approved to allow expanded distribution of the drug zidovudine for pediatric patients with advanced stages of infection with the AIDS virus.

In addition to our increasing attention to devices such as medical gloves and condoms that can help prevent the transmission of AIDS, FDA also continues to focus on activities aimed at educating the public and health professionals about the proper use and reuse of medical devices in order to prevent the inadvertent transmission of HIV. We produced this year, for example, a three-part videotape on appropriate infection control in dentistry.

Although the risk of acquiring AIDS by transfusion of blood has almost been eliminated, FDA continues its efforts to ensure the safety of the nation's blood supply. A 100 percent inspection of over 2,400 FDA-regulated facilities was conducted once again last year. Our inspection program will continue to focus on procedures used by the blood and plasma industry in donor screening, testing for hepatitis B and HIV antibodies, and on procedures for quarantine and destruction of unsuitable blood products. For FDA's AIDS activities in FY 1991, we are requesting an increase of $6.6 million and 74 FTE's. This will support our ongoing commitment to expedite the review and evaluation of applications for all promising AIDS-related products, and to enhance our HIV-related applied research and product surveillance activities.

NEW DRUG REVIEW

Training, increased staff, and implementation of more efficient procedures have enabled the FDA to review a wide spectrum of new drugs and new medical devices more quickly in 1989, yet maintain the high standards of quality and safety expected of the agency. In calendar year 1989, we approved six new chemical entities in fourteen months or less, while approving a total of 85 new drug applications (NDA's). In addition, the number of overdue NDA's pending at the end of the calendar year was 67, reduced from 71 a year earlier, 91 two years ago, and 116 three years ago. I not saying all problems in our review processes have been eliminated—only that we are working hard to maintain steady progress in improving these processes.

We continue to face an exploding universe of drug applications that involve more complex effectiveness and benefit/risk ratio decisions because of the new and highly complicated biomedical technologies being developed every day. We are requesting an increase of $2.5 million and 33 FTE's for new drug review in 1991 to help us sustain improvements achieved thus far and to meet the growing demands of increasing drug development.

MEDICAL DEVICES AND RADIOLOGICAL HEALTH

FDA continues to make significant improvements to our medical devices and radiological health programs. FDA approved 56 premarket approval applications (PMA's) during 1989, the second-highest level ever. A record number of 510(k) premarket notifications—7,022—were submitted during 1989, an increase of 27 percent over 1988. Despite the increased workload, there were no active and overdue 510(k)'s at the end of 1989. For the first time ever, FDA reached decisions on every investigational device exemption (IDE) within the 30-day statutory timeframe. Our medical device enforcement activities are increasingly effective in protecting public health. We issued 44 regulatory letters, and made 28 seizures. In addition 999 recalls were conducted, another all-time high. When combined with our efforts to educate and assist consumers, health professionals, and small manufacturers, we believe these, and other, FDA programs are contributing to significant improvements to product safety and effectiveness. We are requesting an increase of $2.3 million and 30 FTE's to help us sustain our level of review efforts in the face of increasing new device developments.

ORPHAN PRODUCTS

The promotion and encouragement of the development of drugs, biologicals, medical devices, and medical foods for rare diseases or conditions continues to be one of our priority objectives. During calendar year 1989, 76 products received designation as orphan drugs. Since the enactment of the Orphan Drug Product Act, a total of 333 designations have been made. We estimate that another 135 sponsor requests for orphan drug designation will be received for review in 1991. In 1989, nine orphan drugs were approved for marketing. The $5.4 million available for orphan product grants in 1989 permitted the funding of 21 new grants in addition to continuing prior year grants. The increased 1990 funding of $7.5 million for these grants should provide for a significant increase in the number of new grants funded.

SEAFOOD MONITORING

Seafood has become an increasing part of the American diet. Much of the seafood consumed in the U.S. is imported. FDA has been able to examine less than 6 percent of all formal entries of seafood imported into this country, and since seafood is susceptible to bacterial contamination, decomposition, and naturally occurring toxins, we have to be very cognizant about the quality of imported seafood. This becomes particularly vital because several types of the seafood can be consumed without cooking. At the same time, FDA needs to monitor the domestic processing industry, especially in the area of shellfish, since raw shellfish cause many of the illnesses related to seafood. In the shellfish program, we need to enhance our assistance to States, which bear responsibility for monitoring shellfish harvesting areas.

We are requesting an increase of $9 million to expand FDA's seafood activities in 1991 which includes more inspections, increased sampling of seafood products, particularly imports, and enhanced applied research to improve analysis of health risks and develop better detection methods.

FDA is also joining forces with the National Marine Fisheries Service of the Department of Commerce and the industry in a new initiative to develop an enhanced voluntary inspection and certification program that involves primarily in-plant inspections by NOAA Fisheries and verification of successful plant operations by FDA. This program, based on the existing authority within the Federal Food, Drug, and Cosmetic Act, will embody the "HACCP" (Hazard Analysis Critical Control Points) concept to assure seafood safety. Our budget projects that $5 million of the fees collected from industry will go to support FDA's portion of this program.

FOOD SAFETY INITIATIVES

In addition to the issues surrounding seafood, there are other issues regarding the safety of the nation's food supply at the forefront of our concerns for which we are requesting increases in our 1991 budget request.

During the 1980's we had to deal with a variety of real or threatened tampering incidents involving a wide range of FDA-regulated products. Until recently these episodes were confined to this country. The Chilean fruit incident of last year demonstrated that tampering can be an international problem. With the continuing growth of imported foods, the vulnerability of the food supply to such threats could also increase. We believe that we need a stronger base of knowledge on how specific poisons react over time in a large variety of potentially contaminated products. For this purpose, we are asking for an increase of $3 million in 1991 to enable us to conduct forensic research on the chemistry of possible poisons in a variety of products, develop testing methods so that we can respond rapidly when incidents do occur, and provide expertise in a more proactive manner when the situation warrants.

We also need to sustain and enhance the base of applied research that provides the knowledge and tools to evaluate possible risks and develop the means to deal with them. An example of this need can be found in the persistent problem of salmonella in eggs. This is a particular challenge since the problem is not merely transmission of the bacteria through contact, but requires intensive investigation to determine how the bacteria is carried and transferred by chickens, their feed, or other products. New laboratory methods for prompt and accurate testing are needed to reduce the problem. Another example is presented by the recently-discovered relationship of a rare disease to certain products containing L-tryptophan. In this instance, we need to improve our applied research in order to be better able to analyze these products as well as to evaluate the precise source of the risk. We are asking for an increase of $2.0 million in 1991 to support these enhancements of our applied research program concerned with such food safety issues.

FACILITIES

Although we have faced a series of delays in completing and occupying the building we have referred to as "module 1" at Beltsville, MD, we now expect to occupy this new laboratory before the end of 1990. While this building will house only about 260 employees, it will provide modern state-of-the-art laboratories for them, replacing a small portion of the badly our-of-date laboratories we occupy at Federal Building 8 near here. Also, we have now resolved with NIH the precise location of our new AIDS building that will be located with our other facilities at the NIH campus, and the detailed planning for that building is finally proceeding.

In the long run, however, FDA still needs a new comprehensive plan for the Agency's headquarters facilities. We are working very closely with GSA staff in analyzing the requirements for FDA operations in the Washington area, and over the next year they will be helping us develop a facilities detailed programming document so that funding options and various modes of acquisition can be considered. We believe this detailed analysis of our needs will serve as an important basis for making decisions on consolidating FDA's Washington area facilities.

At the same time, we must maintain our existing facilities—our ability to conduct sound regulatory research and testing depends upon adequately functioning facilities and equipment. Our request for 1991 includes $4.7 million for facility maintenance and laboratory renovation projects, most of which is for NCTR and our field laboratories, which will not be affected by possible future headquarters facility consolidation.

SUMMARY OF BUDGET REQUEST

In conclusion, I would like to summarize several points about our 1991 budget request.

Our total request for 1991 is for $685.2 million, of which $152 million would be derived from proposed product review and monitoring charges. Another $5 million is expected to come from voluntary fees for seafood inspection. The request includes a net change of $31 million to provide for increased payroll and other operating costs. In addition, our request includes $53 million in program increases that I have already described in this statement. To summarize, increases of $10.2 million for generic human drug activities, $14.9 million for restoration of our field staff and enhancement of our forensic laboratory, $6.6 million for AIDS, $4.7 million for new drug and device review, $14.1 million for seafood monitoring, and $2 million for food safety initiatives are requested.

While we are certainly cognizant of the Committee's past guidance on the subject of user fees, we have once again included them in our request for certain of our activities because we believe them to be an equitable way to finance some FDA programs; this year, namely, review of applications for drugs, devices, antibiotics, biologics, and food additives ($124 million); enhanced generic drug review and monitoring ($28 million); and voluntary seafood certification ($5 million). With the exception of the seafood certification program, for which user fees are already authorized, the Administration is submitting a separate comprehensive legislative proposal to provide authority to charge these fees, for FDA. Our activities in these areas clearly benefit industry at the same time that they protect consumers, and so we believe these charges are appropriate.

Mr. Chairman, this concludes my prepared remarks. I would be happy to respond to any questions you or the other members of the Committee might have.

BIOGRAPHICAL SKETCHES

JAMES S. BENSON

Mr. James S. Benson, Acting Commissioner of the Food and Drug Administration, was born on March 23, 1939, in Baltimore, Maryland. He received a B.S. degree in civil engineering from the University of Maryland in 1962 and a M.S. degree in nuclear engineering from the Georgia Institute of Technology in 1967.

(Mr. Benson is FDA's Deputy Commissioner. Since December 1989 he has been serving as the Acting Commissioner pending the President's nomination of a new commissioner.)

As a member of the United States Public Health Service (USPHS), Mr. Benson served as the State Assignee to the Wyoming Health Department from 1962 to 1964, and as the State Assignee to the Georgia Health Department, from 1963 to 1965, working in the area of radium management. In 1965, he became a member of the

Division of Radiological Health in the USPHS Radioactive Materials Section, remaining through 1966. From 1967 to 1970, Mr. Benson worked with the Bell and Howell Human Development Institute, initially as Management and Training Consultant, and later as Director of Operations. He joined the Westinghouse Learning Corporation as Director for Manpower Programs in 1970, leaving in 1971 to return to government service.

At that time, Mr. Benson rejoined the FDA Bureau of Radiological Health, and in 1972 was appointed Director, Division of Training and Medical applications. He was appointed Deputy Director, Bureau of Radiological Health, in 1976 and served in that position until 1982 when he became Deputy Director, Center for Devices and Radiological Health with the 1982 combination of the Bureaus of Radiological Health and Medical Devices. He assumed his current position as Deputy Commissioner in 1988.

During his years of government service Mr. Benson has received numerous awards. In 1978, he received the FDA Award of Merit, and the PHS Superior Service Award in 1984. In 1985 he was awarded the FDA Commissioner's Special Citation and the Meritorious Presidential Rank Award. In 1988, he received the Distinguished Presidential Rank Award; in 1989, he was selected as one of ten executives and organizations for the 1989 Profiles in Excellence by the Office of Personnel Management.

Mr. Benson and his wife Karen have two children and reside in Rockville, Maryland.

JOSEPH A. LEVITT

Joseph A. Levitt, Esq. is the Director of Executive Operations for the Food and Drug Administration and serves as Chief of Staff to the Commissioner. He joined the Commissioner's Office in May 1983 when he became the Commissioner's Program Advisor. He then became the Executive Assistant to the Commissioner in December, 1984, and assumed his current position in February 1988. Prior to joining the Commissioner's office, he worked in FDA's General Counsel's office since graduating law school in 1978.

Mr. Levitt is directly involved in a wide range of public health and administrative issues, including a central involvement in the development of the new regulations for drugs to treat life threatening illnesses and the Treatment IND regulations. Mr. Levitt has also been heavily involved in such issues as AIDS, food labeling, generic drugs, and food safety. Other issues of past involvement include Reye syndrome, aspartame, sulfites, the IND/NDA rewrites, direct-to-consumer advertising of prescription drugs, medical devices, and the FDA Action Plan.

In 1982, 1985 and 1987, Mr. Levitt received the FDA Award of Merit, and the Commissioner's Special Citation in 1985. Mr. Levitt also received the PHS Superior Service Award in 1986, the Department Distinguished Service Award in 1988, and the Secretary's Special Citation in 1989. He graduated magna cum laude with a J.D. from Boston University, where he was a member of the law review. Mr. Levitt's B.A. degree is from Cornell University, where he graduated magna cum laude. Mr. Levitt is a member of the Massachusetts Bar and the Phi Beta Kappa Society.

SHARON SMITH HOLSTON

Serves as principal advisor to the Commissioner for all phases of management inherent in the operations of FDA. Responsible for the effective utilization of all management resources and the implementation of operating programs by coordinating the funding, personnel, facilities, procurement, grant and contract management data processing, and safety and security needs of the Agency.

Received B.A. degree in French language and literature from Barnard College, Columbia University in 1967. Received M.P.A. degree from the John F. Kennedy School of Government, Harvard University in 1986.

Joined the federal government in 1967 as a Personnel Management Specialist for the U.S. Commission on Civil Rights. Served on the Welfare Reform Planning Staff in the Department of Health, Education, and Welfare from 1970 to 1972. Came to FDA in 1972 as Deputy EEO Officer for the Office of the Commissioner. Worked in the Division of Personnel Management from 1975 to 1977. Served as Acting Executive Officer for the Office of the Commissioner from 1977 to 1979 and Special Assistant to the Associate Commissioner for Management and Operations from 1979 to 1980. Served as Deputy Associate Commissioner for Management and Operations from 1981 to 1986 and Acting Associate Commissioner for Management and Operations from 1986 to 1988. Appointed to current position in 1988.

Received an FDA Award of Merit in 1982 and 1987, the Commissioner's Special Citation in 1985, and the DHHS Senior Management Citation in 1988.

RECRUITMENT AND RETENTION

Senator **Burdick**. Senator Cochran.

Senator **Cochran**. Mr. Chairman, I want to start off by saying that the committee has taken a dim view of the user fee proposal in past years, and I am hopeful that we will have a similar reaction to it this year. I think that we need to explore other ways of getting at the budget problems of the Food and Drug Administration, but I agree they are very real.

We need to try to work with FDA to improve the speed with which it processes applications, recognizing the problems that unnecessary delay can cause. But we do not want to sacrifice thoroughness and care, of course, in the process.

One problem that I know FDA has is the recruitment and retention of good quality employees—people who are well qualified to deal with the challenges that face this Agency.

Do you have any figures or information you could share with us about this issue? For example, what is the average length of employment by FDA staff? We are talking about professional staff, not clerical, but people who you depend on for scientific advice and decisions that are so much a part of the FDA responsibility. Is there anything this committee should be doing to assist you with the current situation?

Mr. **Benson**. You have certainly identified an important area for us, and I think that we, in fact, owe you a report on that, which, I would hope, will be coming soon. I do not have specific figures with me today. I know that recently we were looking at some of the turnover rates in our field. If I remember correctly, as an example, at one of our districts, the Newark district in particular, over the past few years, 50 percent of the people there are new, which gives you some idea of the level of turnover in the field.

At headquarters, especially in the very important review areas, the drug review, device review, and so on, we have perpetually had a high turnover rate.

We have also in the drug area had a large backlog of vacancies, and I am very happy to report that we are swiftly overcoming that problem. I think with Dr. Carl Peck coming on board and the work that Gerry Meyer, who is his deputy, has done over the past year or two, have cut strongly into that backlog.

We have an enhanced recruitment program in the drug area. Drugs have also started what they call a staff college, which sets up some very timely and state-of-the-art seminars and training courses for the people in-house.

And so, I think we are attacking that problem head on, and we would be glad to answer specific questions you have for the record. Also, I would like to get the report to you that we owe you.

Senator **Cochran**. We are looking forward to seeing that report and will hope we have it in time to include provisions in this bill based upon that information.

Is there anything that you can think of right now that the subcommittee could do to help improve your recruitment and retention record?

Mr. BENSON. One of the major issues is pay and the comparison of pay to the private sector. I think the proposed increase for SES employees will kick in, in about 9 months will be helpful.

The Agency needs to pay attention. In general one of the things that I have always been concerned about is the respect that Federal employees get across the board. My own personal view is that too often when things go wrong the Federal employee receives blame, often when in fact it is not deserved.

We could all kick in to help him out a little bit, specifically, in terms of actions of the committee. I think that you have certainly been encouraging us to pay attention to recruitment and training programs. We have gotten that message, and we are following through on it.

FOOD LABELING

Senator COCHRAN. We are hearing a lot of talk about food labeling. On March 8 there was an article in the Washington Post describing the proposal of the Secretary of Health and Human Services, Dr. Sullivan, for new regulations.

Is it your understanding of this proposal that FDA would be the agency that would actually administer or carry out the food labeling rules and try to help ensure some uniformity throughout the country on this issue?

Mr. BENSON. Absolutely. I mean for those products that we are responsible for, we would definitely have that responsibility, the exception being meat and poultry, which is the USDA responsibility.

As we implement the proposals that Dr. Sullivan announced—and we have every intention of doing that—FDA will provide the necessary leadership that the FDA and the Federal Government must provide in order to clear up some of the confusion and concerns that the community has expressed, not only consumers but industry as well.

I am a strong believer in the importance of uniformity in those labeling proposals. That is a very important part of it.

Senator COCHRAN. Personally, I think the labeling situation right now is very confusing. But I am sort of suspicious that unless we do simplify food labeling, we are not going to do much good in terms of conveying accurate, understandable, or useful information to the consuming public.

Is that part of this effort? Is that your understanding?

Mr. BENSON. Yes, sir; in my mind that would take form in two ways. First, we need more common denominators, standard serving sizes for example, making sure the units that are used are consistent. I personally find it confusing when somebody throws an inconsistent set of units at me—especially when I have to go dividing by 1.4 to figure out what the real serving size is.

Second, we are going to be proposing a standard format for nutritional labeling. We plan to make sure that we have as clear an understanding as we can get of what the consumer really wants and would prefer in the way of a standard format.

We are going to do some considerable marketing research before we arbitrarily decide on a format. So those two things will be done as part of the proposal.

Senator COCHRAN. I am looking forward to seeing what the regulations actually say in getting down into some of the details of it, hoping that we do have some better guidance for people who are buying food in this country.

I think we have gotten carried away with trying to put so much information on labels that we have just sort of jammed the system, you know, like computer overload. Then, we end up getting our attention captured by some flashy thing, like fat free or high fiber or new—anything.

I think probably the best guide is, if it tastes bad, it is probably better for you. [Laughter.]

But, I do not know how we would do that on a label.

Mr. BENSON. Maybe we should propose that, I do not know. [Laughter.]

Senator COCHRAN. Thank you, Mr. Chairman.

Senator BURDICK. The Senator from Iowa.

Senator GRASSLEY. Thank you, Mr. Chairman.

THIRD PARTY ENDORSEMENT ON FOOD LABELS

I believe I want to continue this line of questioning on this issue. But I particularly would like to know the administration's position on some of these programs that provide for private food labeling or seal of approval programs, these that we have been reading about that are under way now.

Mr. BENSON. I would ask Mr. Levitt to answer that, if I may.

Mr. LEVITT. We have raised concerns about private endorsement programs, one in particular recently. Our basic concerns stem from some of the points that Senator Cochran was making in terms of leading to confusion of different kinds of labels on different foods, inconsistencies from one food to the other.

We are concerned also that a particular product that got an endorsement might be identical to another product that for whatever reason did not receive the endorsement, because they were not part of that program. That could be misleading to consumers.

What we are trying to do instead of that is to establish a standard set of rules that have consistency, clarity, and provide good information to consumers. I think that we are after exactly the same goals as those programs have articulated. We are trying to bring it all together and put it together into a cohesive unit.

Senator GRASSLEY. Well, maybe that is the answer to my next question.

I want to know, has, or will, the FDA take some action in this area, and when?

Mr. LEVITT. Specifically, we issued a reproposed rule on so-called health claims on foods, health messages, or health claims that covers the kind of statements that say, this food will help lower your cholesterol, or will help reduce the risk of a disease, or reduce the risk of cancer, or reduce the risk of heart disease.

We set out in that reproposal an interim enforcement policy and we are already collecting sample labels and plan to be issuing a number of letters to companies that we feel are not in compliance with these requirements.

We are going to be looking first to see whether or not the labels fall within the accepted scientific boundaries. Recently major statements have been put out by the Surgeon General, and the National Academy of Sciences.

Second, we are going to look at the claims to see whether or not they are too exaggerated, make a bigger case than the scientific evidence supports.

Third, we are going to see if the food itself has enough of the component. They do not just sprinkle a little on top and say, this contains such and such and it is going to help you. Even if the science is there, the product has to have enough of the component in it to justify any claims.

And finally, we want to look at the total food and make sure that there is not another part of the food that is counteractive, a food that is bragging about being low in cholesterol, but if it is high in fat, saturated fat particularly, one counteracts the other. We think that would also be misleading.

Those are the points we are going to be looking at. We have a program we are putting together. We are going to try to pick cases that are both individual examples but also illustrative of larger themes in order to have some reasonable boundaries and clear up some of the confusion that is out there.

Senator GRASSLEY. The research which is the basis for the private organizations making their claim as well as the companies that use their approval—I mean use their rating, is considered proprietary.

How can you make this determination without having access to the proprietary information?

Mr. LEVITT. One provision of our health messages policy is that such claims need to be based on publicly available scientific evidence.

Senator GRASSLEY. And otherwise if they are not available to the public, then, they cannot be used. Is that right?

Mr. LEVITT. That is correct, for purposes of health messages, that is right.

Senator GRASSLEY. Now, the last question. Does the Food and Drug Administration have sufficient resources to oversee in this area? Listen, I am not giving you an opportunity to ask for more money. [Laughter.]

Mr. BENSON. Let the record show a long pause. [Laughter.]

Almost all of our programs are based on a strategy that does not require a cop at every grocery store, if you will.

And as Mr. Levitt indicated, in the immediate future, in the immediate months to come, we are going to be singling out examples of labeling—some of the examples that you were giving a few minutes ago—that we feel that are outside of the boundaries of good sound logic and good sound nutritional diet information.

When we start sending regulatory letters to these companies and taking further actions if necessary, that is going to send a strong signal to everyone. We have got to use that kind of multiplication in order to solve the problems that we face not only in the labeling area but across the board.

And so we will be doing that. We have requested some modest increases in the foods area, both in our field work as well as in some of the headquarters research. I think we are in pretty good shape there.

Senator GRASSLEY. Thank you, Mr. Chairman. I am done.

Senator BURDICK. The gentleman from Wisconsin.

Senator KASTEN. Mr. Chairman, thank you.

POSTMARKET SURVEILLANCE

Mr. Benson, as you know, we currently spend over $500 billion per year on health care in the United States. The Federal Government spends about one-fifth of that total. On top of that, the cost of health care is rising at an annual rate of almost 14 percent, roughly, three times the rate of inflation.

At the same time, there are serious concerns about the quality of health care, including issues such as the proliferation and duplication of medical tests and services or, whether or not the most up-to-date procedures are being used, and whether or not new research data and information is being disseminated expeditiously.

It is my understanding—after a brief review of your prepared statement—that you wish to improve the evaluation of drugs and biological products in order to speed up some of this overall effort.

It is my understanding that the FDA's responsibilities include a review of the safety and efficacy of drugs, devices, medical technologies.

Now, last year before this subcommittee, Commissioner Young testified that there is a need for postmarket surveillance of these various tools for diagnosis and treatment of patients and that he would like to have the FDA look at them for comparisons of their effects and quality in order to provide doctors with more authoritative evaluations.

He also indicated in his testimony that he believed that some of this work could be done in partnership with outside educational institutions.

While I recognize that the FDA resources are tight—and you were careful in your answer to Senator Grassley's question. But what do you think about this idea? And specifically, would you agree that this kind of information gathering and sharing could be handled on an extramural research basis, for example, by a medical college which has expertise and experience in this field, if we could somehow work out sufficient resources from the FDA for these kinds of activities?

Mr. BENSON. Yes; I was here last year, so I should remember that.

Let me respond in a couple of different ways. One reason Dr. Young reflected the thinking mentioned in the comment that you just gave, I think, was stimulated by some proposed legislation on mandatory—what we would call mandatory user reporting in the medical device area. He was trying to think of a sensible way to make that happen, so as to prevent the agency from being totally inundated with data. You know, if you do not have the resources to do the analysis, all that data is not going to do you any good. He was thinking of a central system where some kind of regionalization using medical facilities, perhaps universities or whatever, to try to make sense out of all that information coming in. That legislation has not passed. And I do not think it has been reintroduced in this Congress. So that is part of the answer to your question.

Postmarket surveillance across the board, whether we are talking drugs or devices or whatever kind of technology, is a critically important facet to what we do.

We do have a sophisticated adverse experience reporting system, especially, in the drug and biologic areas, where manufacturers are required to report. In the device area we also have similar requirements. But it is a little different in that the vast majority of devices on the market are there not as a result of a full application but are there through the market notification process, which has been somewhat of an impediment in the past in terms of getting reported.

We have more control over those products that have been approved through a full application. The specific answer to your question is that, if we chose that pathway, the central system or a system similar to that, where there was a partnership, we must maintain control over the process, but there is no reason why that could not be farmed out and in a cooperative way to academic or medical or whatever institutions.

I believe it is doable, and it is certainly worth looking into. I would just add one other thing before we were to jump into that kind of program I would want to see it piloted very carefully to make sure it was in fact a good idea.

Senator **Kasten**. But the concept of post-market surveillance and using these different kinds of evaluations is one that matches a cooperative partnership, is that what you are saying?

Mr. **Benson**. Yes.

"LIGHT" FOOD LABELING

Senator **Kasten**. Let me, if I can, switch to labeling with regard to something important to Wisconsin, and that is butter.

As you may or may not be aware, I have introduced legislation that would provide a Federal standard for light or reduced fat butter. This product would contain 52 percent milk fat and at least a one-third reduction in calories. It would have the same functionality and quality as butter, but would meet the concerns of some to reduce fat in their diets.

I think this product would provide a clear dairy alternative for consumers. And I also think that this is the kind of a product that consumers are asking for and wanting.

What is the FDA's position on the establishment of this standard for "light or reduced fat butter?"

Mr. **Benson**. I am aware that you have introduced that bill. I am not familiar with the specifics of it, but let me try to comment in general.

First off, the intent and the direction you are going is one that we should be going in, that is, to allow products that would reduce fat or that would be healthier, to be labeled in such a way that consumers are not discouraged from buying them. And I think that is exactly what the purpose of this is.

One of the concerns that we have is that this would deal with what we call standards of identity or recipes that go into foods. The department's position, although it has not been considered, is, I believe, that those kind of changes should be done under a regulatory process.

If there were legislation, the legislation ought to allow us to make those kinds of changes in a more streamlined way. It is not a simple task. We have to go through a formal hearing process in order to change those standards of identity, and it has not gotten us very far very fast at this point.

So, I would say the intent of the direction you want to go is a good idea. I think it should be done in a regulatory process. The regulatory process is burdensome, and that is a problem.

Senator KASTEN. Well, let me just say that I particularly understand your last sentence where you spoke in terms of the regulatory process being a burdensome and time-consuming process. It is so burdensome and difficult. I have been working on trying to have labels for 100 percent real cheese pizza for a number of years and that is another one of these issues that goes through all these kinds of burdensome processes.

But the fact is that here we are. By having the new definition "light or reduced fat butter," we are moving in the right direction for the dairy farmer as well as for healthy Americans. By establishing a uniform level of milk fat in "light butter" we are also moving in the right direction in terms of specifically and consistently informing consumers of the content of their products.

I am hopeful that we can work together. I would be anxious to work with you through this process. At the same time I think it is important that I look at the legislative side as well.

Mr. BENSON. We would be delighted to work with you on this.

BOVINE SOMATOTROPIN

Senator KASTEN. Mr. Chairman, I just have one additional question.

Bovine Somatotropin is a very hot topic as you know in my State of Wisconsin and throughout the upper Midwest. I am sure the Senator from Iowa is very aware of that. A conference committee is currently working out legislation that at the latest would ban BST until July 1, 1991, or 6 months after the FDA's approval of this substance, whichever is later.

This is a conference committee in our Wisconsin State Legislature.

Mr. BENSON. Yes; I am aware of that.

Senator KASTEN. My question is, where is the FDA now in the process of approving BST? And what does your timetable look like?

Mr. BENSON. I have to be a little cautious. I am not sure. I need to refer to counsel how much I can say about the approval process.

Ms. PORTER. I think we can talk about timing generally. The concern would be whether we commit ourselves to something that we then cannot meet.

Mr. **Benson**. The concern is proprietary information, that is all. We presently are in the latter stages. The sponsor has submitted all the data, or close to all the data that they have to the agency. We are in the final stages of reviewing that data.

Because of the controversy we are planning to take an unusual step of reporting in the literature the considerations that we have gone through on BST.

Senator **Kasten**. Let me just further confuse this before you get one more answer. I did not know this was going to be as complicated a question.

Mr. **Benson**. It is not a complicated question.

Senator **Kasten**. My understanding is that the information about the testing process is going to be made available in an upcoming issue of Science magazine. When do you expect this article to be published?

Mr. **Benson**. May or June I am told.

Senator **Kasten**. So the answer to my question is, since you expect to have the Science magazine published May or June, that your FDA process of approving BST would be May or June?

Mr. **Benson**. Let me bring Dr. Gerry Guest to the table. He is in charge of that program and can answer these questions much more directly than I can.

Senator **Kasten**. The question is, is it May or June?

Dr. **Guest**. Sir, what we will publish in Science magazine in May or June is simply the food safety portion. There is still work ongoing on the animal safety as well as the efficacy. So the approval of Bovine Somatotropin, if in fact that is the final decision, will come some time after that. My best estimate is within the year.

Senator **Kasten**. Within the year you will have the total process, but the testing with regard to human beings is going to be published in Science magazine?

Dr. **Guest**. Yes, sir; if you recall there has been experimental work going on with BST for some time in 20 to 25 herds across the country. The consumers as well as State legislatures and others have been concerned about food safety.

We have finished the food safety portion, so we are not concerned about safety from that experimental milk. One way to assure the consumer and others that we have done the job correctly is to publish that data. Now that is a very unusual step for us. Ordinarily at Food and Drug we would not be doing that. But BST has not been the usual drug either.

Senator **Kasten**. I am going to have to go back and review the legislation in the Wisconsin Legislature, because I am not sure if their legislation says the ban would last until July 1, 1991, or 6 months after FDA's approval refers to FDA food safety approval or refers to overall approval.

I am assuming it is the overall approval which says that the May or June event would not trigger the 6 months beginning.

Mr. **Benson**. Let me clarify one point that the publication in Science would be for safety. We do not do partial approvals for safety versus other things. The approval would be based comprehensively on the full analysis of the data that we have been presented with.

Senator **Kasten**. Mr. Chairman, thank you.

I just wanted to say one additional thing. I think that the work that you all are doing right now is probably as important as any work that is going on—in my view—in the Government.

We are at a time in which, for any number of reasons, a simple Government approval is not always enough in order to establish a position of safety or, at least, success in the consumer marketplace.

We are at a time when we can go through extensive scientific research, whether it is with the FDA or with other groups, and one baseball player or a Hollywood movie star can come to one carefully orchestrated hearing, and all of sudden everything you have done goes out the window, and you start again.

In terms of competing in this world, Europe 1992, what is happening in Japan, what is happening in Germany, in terms of continuing to have all our products at the cutting edge of science as well as being successful in terms of consumers, the work that you are doing is very, very important for America.

And I hope, Mr. Chairman, that we are going to look very carefully at this budget and be sure that we are putting the adequate resources into these important programs, because without the trust and the believability and the faithfulness of the consumer in what you are doing, we are going to be in big trouble, not only in agriculture but in other areas.

I think it is very, very important that we do everything we can to fund these programs and restore the kind of credibility to your agency that is absolutely necessary for America to be competitive.

Mr. **Benson**. Thank you, Senator Kasten. I really appreciate those words. We also recognize the importance—how the world is changing. One of many things that we are trying to do at FDA is open up the process to the degree we can under the proprietary requirements.

The publication in Science is an example of that, where we want to demonstrate that it is not enough anymore to just do good science. You have to advertise and show the world that we have done that. And that is what we are trying to do.

I think you put your fingers on a critically important issue and one that we are working very hard on. So I appreciate very much your comments.

Senator **Kasten**. We are going to support you.

Mr. **Benson**. Thank you.

Senator **Kasten**. And, Mr. Chairman, I hope very much that we can look at this budget very, very carefully.

SEAFOOD INSPECTIONS

Senator **Burdick**. The 1991 budget proposes an increase of $14,075,000 and 180 FTE's for seafood inspection.

Is FDA uniquely suited to manage shellfish and finfish inspections?

Mr. **Benson**. Excuse me, someone coughed at the beginning of that sentence, or I missed it.

Senator **Burdick**. Is FDA uniquely suited to manage shellfish and finfish inspections?

Mr. **Benson**. We in fact are uniquely suited to do that. There has been much discussed and much publicized about the safety of seafood in this country.

I personally am at a point of resenting the way that has been characterized. It has been badly misrepresented and kind of speaks to the same points that Senator Kasten just made about certain people testifying at various times and painting a very negative picture which is inappropriate.

We have a strong program with the States in the shellfish area. We see that program being enhanced. There are clearly problems with raw shellfish that need to be corrected. The long-term solution is to correct the waters that are polluted primarily with sewage.

We need to do a better job of closing down those waters and making sure that people do not harvest from polluted waters. The most important solution, though, is to stop the pollution from going into the waters to begin with.

In terms of the infrastructure that FDA has, and as I was speaking earlier with our ability to kind of quality control, the programs that are in place and applying that technology that we have done for years in the drug area and in the low acid canned food area, I think we are in fact uniquely qualified to carry out that program.

FOOD SAFETY INSPECTIONS

Senator **Burdick**. Perhaps you have answered the next question. But I will ask it again in a different way.

In your opinion is the agency equipped to inspect processed fish product, or would the Food Safety Inspection Service have the responsibility for monitoring processed fish?

Mr. **Benson**. That is an important question.

There is a very different concept in FDA for all of the inspections that we do than is done for meat and poultry inspections. And the meat and poultry inspections are incredibly more expensive because of the requirements of the law to have, as I understand it, a person in every plant basically to have every carcass inspected.

What FDA has done traditionally in all its program areas is to monitor the quality control that exists within a processing plant. And so our desire would be to assure that the processor itself would be doing an adequate job of quality control.

And monitoring the quality control of someone else which—and it should be the processor's responsibility—in my mind is a far more cost-effective way of doing business. I understand that FSIS is trying to change their way of doing meat and poultry inspection. And they are trying to use the so-called HACCP plan; they are trying to introduce that plan.

There is a letter that has gone out that says, FSIS plans to introduce the HACCP plan in the future. HACCP stands for hazard analysis of critical control points. That basically means you take a process that started in NASA, in the aerospace industry, and look at what you are manufacturing, and you figure out where weaknesses are, and you pay special attention to those weaknesses. It is a very good idea. One that Pillsbury first introduced into the food market, when they were preparing food for the astronauts, and one that has been applied across the board now in many food establishments. It has been used for years in the drug industry and in the device industry. It is a very good concept.

I think it can work in the meat and poultry industry, but it is not there yet. If FSIS were to introduce the HACCP plan there is a good chance that they could reduce those resources. I do not know what is going to happen there.

Senator BURDICK. Well, you may have partially answered the next question, but I will ask it anyway.

Mr. BENSON. I am staying one ahead of you here. [Laughter.]

FISH INSPECTIONS

Senator BURDICK. In what ways can fish inspection procedures be distinguished from beef and poultry inspection programs?

Mr. BENSON. In my view with the budget deficit we just need to do an optimum job, an efficient job of regulating the industries that we are responsible for. We can do that without continuous inspection.

It is important, as I mentioned before, to monitor the quality control, make sure we hit the weaknesses, put the resources where the weaknesses are, utilize the resources that are already out there in the State health departments, State agriculture departments, for example.

Those resources need to be synergized along with the Federal, and we need to get on with the job.

PESTICIDE MONITORING

Senator BURDICK. What specific activities has FDA undertaken to monitor and sample pesticides and chemical residues in foods?

Mr. BENSON. For a long time, we have done several things in the pesticide monitoring. And as you know, EPA has the responsibility for setting the standards for pesticides and foods. And FDA's responsibility is to monitor those pesticides.

We have what we call our market basket survey, which is a sampling of food that is taken around the country. That food is then prepared, cooked, whatever is appropriate. It is analyzed to try to make sure that it is safe from all sorts of contaminants, that is, chemical contaminants.

We also do somewhere on the order of 20,000 samples of food a year around the country, the majority of which are from imports to make sure that they are within tolerances. We are 99 percent within tolerances.

The pesticide record for fruits and vegetables in this country is very good, slightly less good, as I understand it from imports. We tend to try to pay special attention to producers either foreign or domestic that have had problems in the past.

We put them in our computer and make sure that when a shipment from a problem importer comes that we pay special attention and we look at those specifically.

That in general is how we conduct that Pesticide Program.

Senator BURDICK. In what way is USDA in a unique or helpful position to institute a pesticide usage information data base?

Mr. **Benson**. I understand that USDA has something on the order of $40 million in their budget to do pesticide monitoring. I have had a couple of brief discussions with some people at USDA about that.

My feeling is that if they think that is an important thing to do, we would like to work with them. We can certainly make use of that data, in terms of looking for areas of violations.

USDA's main purpose for wanting to do that is to reassure the public that the American food supply is safe. And that is certainly a goal which I strongly agree with.

Senator **Burdick**. Does FDA sample fruits and vegetables under its Pesticide Residue Monitoring Program?

Mr. **Benson**. Yes; we do.

BUILDINGS AND FACILITIES

Senator **Burdick**. The President's 1991 budget includes $4,752,000 for repairs and improvements of FDA's facilities and laboratories. What is the total cost of renovations and repairs submitted by each of FDA's centers and laboratories to FDA for fiscal year 1991? If you have that information, fine.

Mr. **Benson**. Let me refer that to Mr. Claunts and see if that information is at hand. I do not have it at my fingertips.

Mr. **Claunts**. Mr. Chairman, when we put our request——

Senator **Burdick**. If you do not have it you can submit it for the record.

Mr. **Claunts**. We have it right here. When we put our budget request together initially at FDA, the cumulative request from the centers was for $26,450,000.

AIDS FACILITY

Senator **Burdick**. A total of $25 million has been provided for the construction of an AIDS facility on the National Institutes of Health campus in Metropolitan Washington.

What is the status of construction of this facility? And when will the facility be completed?

Mr. **Benson**. Sharon, why don't you answer that.

Ms. **Holston**. Mr. Chairman, we have agreed on a siting for the building on the NIH campus, and we expect to award a contract for design of that building by midsummer. We expect that the building itself will be completed probably around the end of 1994 or very early in 1995.

Senator **Burdick**. Do you have enough money to pay for it?

Ms. **Holston**. At the present time, yes, we do have enough money. The building is going to end up costing more than was originally appropriated. The first estimate was $25 million. We have been informed by the National Institutes of Health that the cost is now $28.5 million. And we will be using money that was appropriated for us last year to cover that deficit.

Senator **Burdick**. Well, I have heard that before. [Laughter.]

Thank you, panel. Thank you very much.

Mr. **Benson**. Thank you, Mr. Chairman.

SUBMITTED QUESTIONS

Senator **Burdick**. We will have some additional questions in writing, and we would ask you to respond to them within 5 days, if that is reasonable.

Mr. **Benson**. We will be glad to do that, sir. Thank you again.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR BURDICK

Seafood Inspection

QUESTION: The 1991 budget proposes an increase of $14,075,000 and 180 FTE's for seafood inspection. What is FDA currently spending and how many full-time staff are working on seafood inspections?

ANSWER: During 1989, the FDA field force expended 195 full-time equivalent positions (FTEs) on the coverage of domestic and imported seafood products. This includes inspectional, laboratory, and support personnel. Combined with 105 FTEs involved in research, coordination with the States, and other seafood activities, 300 FTEs were devoted to seafood at a cost of about $23 million.

QUESTION: Has FDA developed the microanalytical methods necessary for detection of viruses, bacteria, and other pathogens in shellfish and finfish? Do methods exist for detecting chemical and natural toxins as well?

ANSWER: FDA has developed genetic probes for the detection of strains of bacteria that possess the genetic potential to produce cholera toxin; a genetic probe has been developed to detect Vibrio vulnificus; and a probe has been developed to detect the genome encoding for the hemolysin produced by Vibrio paraphaemolyticus. In addition to probes that are utilized for the rapid detection of naturally-occurring marine bacteria, FDA has either developed or adopted the use of genetic probes for the detection of stable toxin-producing microbes and those microbes that produce verotoxin (Shiga-like toxin). These genetic probes are useful for the rapid detection of these microbes on primary isolation media, where they may be present in very low numbers when compared to other bacterial colonies growing on the petri plate containing the primary isolation medium. In addition to these genetic probes, FDA has either produced or purchased antibodies directed against these various virulence factors. These polyclonal or monoclonal antibodies are utilized in Enzyme Linked ImmunoSorbent Assay (ELISA) procedures to detect the expression of the toxins encoded for by the specific genomes mentioned above.

FDA has an active research program directed towards developing various media for the enrichment of naturally-occurring marine pathogens on seafood and in the isolation and characterization of virulence factors produced by various marine microbes. The research on the isolation and characterization of virulence factors is the primary step involved in the development of genetic probes and antibodies (to be used for various ELISA procedures) for the detection of these microbes in seafoods. FDA has active research programs in Parasitology and performed the research which revealed that freezing of fish results in the killing of anisakid worms commonly found in fish flesh.

FDA has developed polymerase chain reaction (PCR) procedures for the detection of Rotaviruses in seafoods, has contracted for the development of PCR procedures for the detection of Norwalk agent in seafoods, and is testing a PCR procedure for the detection of Hepatitis A virus in seafoods.

FDA has available and uses a wide variety of analytical methods in its ongoing programs to monitor fishery products for chemical contaminants as well as for selected natural toxins. The chemical contaminants monitored include pesticides, industrial chemicals (such as PCBs and other chlorinated compounds), dioxins and furans, polynuclear aromatics (such as those present in crude petroleum oils), and heavy metals (such as lead, cadmium and mercury).

Methods exist for the natural toxins paralytic shellfish poison (PSP) and domoic acid in shellfish. FDA supplies PSP reference standards to support state monitoring programs. An immunoassay method for ciguatera in finfish was developed in part under FDA contract, but the method is not yet generally available. Methods for chemical indicators of decomposition in seafood products have been developed. Research is continuing on improved methods for PSP, ciguatera, and decomposition. A method for analysis of aflatoxin in finfish has been developed to determine whether this natural toxin has the potential for contamination of aquaculture reared fish by aflatoxin-contaminated feed.

QUESTION: Five million dollar's worth of the budget request for seafood inspection is attributable to user fees. Please describe the details of this voluntary proposal and how $5,000,000 in collections can be assured in 1991.

ANSWER. Section 702A of the Federal Food, Drug, and Cosmetic Act, as amended, provides discretionary authority to the Secretary, and by delegation, the Commissioner, to establish a seafood inspection program. The program may provide for the use of a mark on the product to show that that product has been produced under the program. In fact, FDA formerly conducted inspections under this authority, but the program was discontinued in the late 1950's. At present, FDA inspects seafood under the authority of the FD&C Act, and the National Marine Fisheries Service operates a fee-for-service inspection program for those firms requesting it. The two agencies coordinate their activities under a Memorandum of Understanding.

The two agencies are proposing a new, enhanced program under this authority which will involve the expertise of both agencies and will require industry to use the Hazard Analysis Critical Control Point concept in assuring product safety and quality. Section 702A specifically provides for fees for the cost of carrying out the program.

The present voluntary seafood inspection program operated by the National Marine Fisheries Service covers about 10% of the seafood packed in this country. Because substantial attention has been drawn to the safety of seafood in recent times, we believe the industry is interested in assuring the public about the safety of its products. In addition, we believe that industry will be increasingly interested in a program that provides a specific mark that evidences that the firm participates in the new program because that mark will be considered desirable when seeking to sell products to government agencies, other institutions, and foreign countries, in addition to American consumers.

The precise fees for this program have not yet been set. The estimate of $5 million for 1991 is simply an estimate of the level of services that FDA, in conjunction with NMFS, will be able to provide, and it assumes that industry will apply for the program.

QUESTION: What drugs are currently being used in American aquaculture? Does FDA have sufficient resources for monitoring and inspecting their use? Does the seafood inspection request include resources for aquaculture?

ANSWER: The following drugs are currently being used in aquaculture: Oxytetracycline, Sulfamerazine, Sulfa-dimethoxin Ormetoprim (Romet-30), Formalin-F (Formulin) and Tricaine/ methanesulfonate (Finquel). FDA utilizes resources from it's current programs to do small aquaculture surveys. At present FDA is covering 80 of the 3,600 aquaculture firms. The seafood inspection request includes resources for monitoring aquaculture, as part of the overall request for an additional $14,075,000 to expand FDA's seafood monitoring programs.

Pesticide Residue Monitoring Program

QUESTION: The 1991 budget for the Department of Agriculture provides an increase of $25 million for various new food safety initiatives. The Food and Drug Administration (FDA) has undertaken various food safety and pesticide residue monitoring activities. Is FDA currently engaged with the states in residue monitoring programs? If so, how are these programs coordinated and how many states have them in effect?

ANSWER: The staff of FDA field offices are working closely with their counterparts in the States to develop complementary pesticide sampling plans. The level of FDA-State cooperation varies among states, and ranges from formal Memoranda of Understanding and coordination of sampling activities, to simple exchange of pesticide residue information. The extent of FDA-State cooperation depends largely on the size and scope of the individual State's pesticide program. FDA Pesticide Coordination Teams in each district strive to develop sampling strategy or initiate other cooperation which will conserve resources and maximize coverage of important commodities in each state. This type of cooperation has increased significantly over the last several years as the issue of pesticide residues in foods has come to the forefront of public attention. We believe that such coordination of Federal and State pesticide related activities is critical to ensuring that any pesticide residue problem is discovered and contained as early as possible.

The most significant activity is the preparation of an annual FDA Regional Pesticide Plan which is designed to improve coverage of the nation's food supply, and to coordinate sampling efforts with the States. Development of this plan includes a meeting between FDA field personnel and each State agency to share intelligence on pesticide usage, strengthen communications, exchange information on violations and, where feasible, utilize joint planning to maximize coverage of food commodities. An inventory of cooperative food and feed activities is developed and the national summary is distributed to all states and FDA field offices.

Formal Memoranda of Understanding are implemented between FDA field offices and States to set forth the responsibilities of each agency in specific program areas. Pesticide residue monitoring programs are included in MOUs with nine states.

FDA also recognizes the value of acquiring and utilizing state-generated pesticide residue data to complement its own pesticide program. For several years, the Agency has supported via contract with Mississippi State University (MSU) the FOODCONTAM database. FOODCONTAM now receives pesticide residue data from participating agencies or departments of ten states. FDA is currently encouraging other states to participate, and is working with MSU to refine the structure and content of the database to provide for consistency of data reporting formats among participants. Such consistency will ensure that data elements in the system will be comparable from State to State and with FDA data. Summaries of current and future FOODCONTAM data will be published.

State programs and data are increasingly used in planning our pesticide programs. We believe that data sharing and development of complementary sampling approaches will lead ultimately to a residue data base which will provide an accurate national picture of the incidence and levels of pesticide residues in the food supply.

QUESTION: Does FDA believe that any part of the pesticide residue monitoring program proposed by USDA duplicates FDA's activities and responsibilities?

ANSWER: On the surface, it appears that in some ways the USDA program could duplicate FDA's current pesticide residue monitoring program. In USDA's proposal and in a recent discussion among staffs of FDA, USDA and EPA, USDA has indicated they hope to develop their program to complement the FDA program and to provide EPA with the type of comprehensive residue data required during EPA's special review or reregistration processes. USDA has stated that it would seek FDA and EPA guidance in the design and conduct of its program to avoid duplication and to ensure that data obtained would be useful to EPA and FDA.

QUESTION: What amount is FDA currently spending on pesticide residue sampling? What would be the cost for expanding current efforts to comply fully with the Pesticide Monitoring Improvement Act?

ANSWER: The annual cost of FDA's overall pesticide program is approximately $24 million which includes about 350 FTEs. This figure includes all aspects of the program, e.g., sampling and analysis, research, planning and evaluation, etc. The cost of the field operations component specifically for sampling and analysis is about 250 FTEs or $16.5 million. The Pesticide Monitoring Improvements Act (PMIA) does not call specifically for "expanding current efforts" with regard to the number of food samples collected and analyzed each year, the Act mandates three areas in which FDA should improve its existing program: (1) development and implementation of a long range analytical methods research plan; (2) development of a pesticide residue data management system capable of efficiently storing, retrieving and summarizing FDA residue data for domestic and imported foods; and (3) establishment of cooperative agreements between FDA and the governments of the major food exporting countries for the purpose of acquiring foreign pesticide usage data and other relevant information about pesticide control activities in other countries. The 1991 budget requests an additional $9-10 million which will enable FDA to implement all of the PMIA requirements.

Pesticide Usage Information Database

QUESTION: In order to assure that information can be transferred efficiently between interested private and public sector parties, how should such a database be designed?

ANSWER: For a pesticide usage database, FDA believes that USDA should lead the Federal effort to acquire domestic pesticide usage data. FDA believes that it is the agency best suited to develop a statistically based database on pesticide residues.

For the database to be broadly accessible to all potential interested parties, it should be made available for use with personal computers and/or available as a centralized database accessible via telelink, e.g., personal computer software and data on magnetic or optical discs or a centralized database accessible through a telephone modem.

Average usage data compiled at the county level in each State would be relatively cost effective and would be extremely useful to FDA.

In the past, pesticide usage surveys have concentrated on estimating usage on those major crops which are treated with the highest volume of pesticides, e.g., corn, soybeans, wheat. Estimates of pesticide usage on the so called "minor usage crops", which include most fruits and vegetables, have usually not been obtained in past surveys. It is essential that any future usage survey give high priority to collecting data for usage on specific types of fruits and vegetables in all major growing areas around the country.

Pesticide usage patterns may change dramatically from year to year as pest infestation changes or as newer pesticides replace older ones. It is important, therefore, that broad based, nationwide usage surveys be conducted on an ongoing basis to account for changing usage patterns.

Residue Exposure System

QUESTION: Which agency, FDA or USDA, is best equipped to develop a statistically-based database on pesticide residues? Why?

ANSWER: While we believe USDA is better qualified to develop a database on pesticide usage, FDA has the experience and expertise for conducting a national pesticide residue monitoring program for fruits and vegetables and developing a database on pesticide residues. The Agency already has in place nationwide:

- sample collection capability
- well-equipped, quality-controlled analytical laboratories
- uniform, validated analytical methods
- an established analytical methods research program
- a recently developed 5-year analytical methods research plan
- computerized data acquisition/summarization system
- infrastructure to conduct/report on pesticide residue findings
- regulatory procedures and policies to effect corrective actions
- existing cooperative arrangements with the States.

QUESTION: What would be the cost of developing such a database? What additional resources would be needed, for what specific activities?

ANSWER: As stated previously, FDA already has in place nationwide a system that could be expanded to conduct a statistically-based pesticide residue monitoring program. Currently, FDA conducts a pesticide program which combines a regulatory enforcement component with an information-gathering component. The prime focus of the current pesticide program is on enforcement of tolerances, but information generated as a result of the enforcement activities is also very important. In order to determine the overall incidence and levels of pesticide residues in the food supply, FDA could separate and expand its incidence and level information component for fresh fruits and vegetables.

Such an informational component could emphasize:

- collection of fresh fruits and vegetables of dietary significance (domestic and import) at major food distribution centers representing a significant fraction of the food supply in the United States, e.g., at 23 such centers identified by the U.S. Department of Agriculture;
- analysis for those pesticide residues most likely to be present, as determined by reference to domestic and foreign tolerance information, pesticide usage information (domestic and foreign) and pesticide chemical characteristics—this would entail use of efficient multiresidue methods along with, in many cases, selected single residue methods most appropriate for the particular residue/commodity combination;
- a mechanism to trigger FDA enforcement follow-up when monitoring activities detect pesticide residue problems; and
- eventual combination of FDA's pesticide residue incidence and level data with appropriate State monitoring data or other non-government residue data into a national pesticide residue data base.

Under such an expanded program, approximately 1,000 samples would be collected at each of the 23 distribution centers, for a total of about 23,000 samples to be analyzed. It is estimated that the total annual cost of such a program would be approximately an additional $21 million. However, the 1991 President's budget does not request funds for this purpose within the FDA account.

Food Safety Initiatives

QUESTION: Please provide detailed comments on the food safety initiative proposed by USDA for the Committee, including areas where coordination between various federal agencies and the states would be necessary in implementing such a plan.

ANSWER: The overall stated goal of the USDA initiative is to develop and communicate objective, comprehensive information on pesticide residues to help ensure the safety of the domestically produced food supply.

This initiative requires a total of $25 million for the first year, roughly the size of FDA's entire pesticide program. The pesticide residue monitoring portion of USDA's proposed program amounts to $15.8 million. In subsequent years, a larger amount ($40 million) is sought.

There are three major parts to the USDA initiative:

1. Pesticide Residue Monitoring Program

The proposed initiative is a new sampling program in addition to the existing pesticide residue monitoring program conducted by FDA. EPA bears responsibility for registering pesticides and setting tolerances for acceptable residues on specific crops, and FDA bears the basic Federal responsibility for monitoring both domestic and imported food products. In addition, some States have their own monitoring programs.

The USDA initiative is based on funding to States to conduct product testing. While this program can increase greatly our knowledge of pesticide residues in foods, it will require a new level of coordination among FDA, USDA, and the States.

Reliance on State-conducted monitoring as proposed by USDA could present several problems, including:

- a long start-up time
- difficult to achieve and maintain uniform analytical capability
- data quality, detection/quantitation limits, etc., must be uniform before compilation in a consolidated database can be considered

2. Pesticide Usage Information Base

Detailed information on pesticide usage is critically needed. USDA is the logical Federal agency to coordinate and carry out acquisition of this information.

This information is vital to conducting a more effective regulatory monitoring program.

Pesticide usage information will permit FDA to target pesticide/commodity combinations for sampling and analysis, and in turn will give FDA and EPA an indication of whether the pesticides have been used according to label directions and/or restrictions.

Pesticide usage information will also enable the U.S. to reciprocate in information exchanges with foreign governments and facilitate international food trade. The 1988 PMIA requires FDA to seek pesticide related cooperative agreements with foreign countries that are major food exporters to the U.S. Under these agreements, FDA would be supplied foreign pesticide usage information. At present, the U.S. is unable to provide other countries with corresponding information on U.S. pesticide usage.

3. Residue Exposure System

A statistically based residue monitoring program and corresponding database for fruits and vegetables does not exist. Such a program and database are highly desirable. This logically could be the responsibility of FDA, which has a sampling and laboratory capability and a computerized data compilation/summarization system in place. FDA has a program to evaluate the likeliest pesticide violations which present the greatest risk to health. A statistically-based monitoring database would be very helpful, but as for i creased monitoring programs, it will require a high level of coordination among FDA, USDA, and the States to assure that the information collected is consistent and accurately consolidated.

User Fees

QUESTION: The Administration's budget proposes the collection of over $157,000,000 in user fees to finance on-going operations and new resources. What was FDA's estimate of revenues from user fees as submitted to the Public Health Service? Was this amount increased by the Public Health Service or the Department of Health and Human Services? If so, by what amount? Did the Office of Management and Budget increase the estimate for user fees subsequently? In what specific areas were charges augmented from the original estimates?

ANSWER: In its initial request for 1991, FDA proposed about $16 million in user fees to support specific program expansions. Those same user fees were included in the PHS request to the Department. The Department's request to OMB included proposals for $144 million in user fees; these included the fees proposed in earlier requests, and fees for product review activities as had been proposed in the 1990 request, and also user fees for expanded generic drug activities to support the action plan to restore confidence in generic drugs that was announced in August. As a result of negotiations with OMB on the final 1991 request to the Congress, a total of $157 million in proposed user fees was included. This includes $5 million in voluntary seafood inspection fees, and $28 million in review and monitoring fees for generic drugs because of the unusual situation with regard to generic human drugs. The remaining $124 million in fees proposed is for FDA's activities for review of product marketing applications for new food additives, drugs, biologics, and medical devices.

QUESTION: If the estimated $157,000,000 were not collected, how would FDA finance on-going operations? Would a violation of the Anti-Deficiency Act result? Would proposed additional resources be sacrificed?

ANSWER: The budget request proposes an appropriate total level of funding for FDA, including funds provided by user fees, which are an appropriate source of some funding for FDA because industry benefits substantially from certain FDA activities.

If these fees are not implemented, and an alternative source of funds is not provided, FDA would have to make significant reductions in current activities. Hiring would have be frozen and most other categories of expense would have to be severely limited, and a furlough would likely be necessary. Clearly, the increases proposed in the request would not be implemented. In any case, FDA would not permit violations of the Anti-Deficiency Act to occur.

QUESTION: If user fees were allowed, under what mechanism would collections be provided to FDA to finance its operations? What protection against the potential for conflict of interest would be provided?

ANSWER: In the case of the seafood inspection program, the fees are voluntary and FDA and NOAA would not provide services until the firm applied for the program and paid the necessary fees.

For all of the product review fees, FDA would not take action on the application until the fee were paid. In addition, the agency proposes that fees be set at specified rates for different types of applications, so that once the fee is paid and the application is under review, there is no further concern by FDA staff in the collection of the fee. The staff who review applications would not be involved in setting or collecting the fees. FDA's normal conflict of interest procedures would remain in effect, and all applicants would be paying the fees, so there does not appear to be any particular potential for a conflict of interest.

QUESTION: How would the user fees impact small companies? Would it slow down innovation?

ANSWER: The fees proposed constitute a very small percentage of the revenue received by the firm from a new drug or device in almost all cases. Therefore, the agency does not expect any significant impact on innovation or on small firms. In addition, fees would not apply to receiving permission to investigate new products, but only when the firm has completed its studies and is ready to submit a marketing application.

The Administration's proposal does, however, provide for exemption or waiver from fees in certain circumstances in the public interest. This provision would likely apply in the case of orphan drugs or devices, where there is limited profit potential from a new product because of a limited market. This provision might also apply in the case of very small firms where the fee truly would pose a barrier. In almost all cases, however, the fee would be quite small compared to the cost of developing new products, and thus the fees should not be a barrier of themselves.

QUESTION: Has the Administration's user fee legislation been introduced? In what areas and at what levels would user charges be assessed?

ANSWER: The Administration's proposal was transmitted to the Congress on April 4, 1990, and we hope that it will be introduced and receive further consideration in the very near future.

The seafood fees projected are $5 million, and our expanded generic drug activities are projected to cost $28 million more in 1991 than the base for this program, with all of the increase proposed to be funded via user fees. The base product application review activities for which fees are proposed are estimated at $124 million in 1991.

In the case of generic drugs, we are proposing an annual monitoring fee because of the increased monitoring required of these products as a result of the problems discovered with the generic drug industry. This fee would be collected annually on a specific date.

In the case of seafood inspection, FDA and the National Marine Fisheries Service are in the process of developing an enhanced voluntary seafood inspection program to be conducted jointly by our two agencies. NMFS currently conducts such a program using hourly rates for different types of inspectional activities. The new program will be similar, but based on new principles of industry quality assurance using the Hazard Analysis Critical Control Point concept. The precise fees to be charged under this program have not been set.

For all of the major FDA product application review activities, the fee would be paid with the application, or the agency would not file and review the application. Actual fees would have to be set by regulation depending on the final form of authorizing legislation as passed by Congress. However, at present we would estimate that a Food Additive Petition would have a fee of about $150,000, while a New Drug Application would cost around $400,000. A human generic drug application would have a fee of around $30,000. A New Animal Drug Application fee would be about $130,000, and a new generic animal drug application fee would be about $20,000. For devices, a Premarket Approval application fee would be around $100,000, while a notice of intent to market— known as a 510(k)—would have a fee around $1,000.

These estimated fees assume all of the applications in a category are charged the same fee. The legislative proposal which is being developed would provide for the Secretary to reduce or waive fees in certain instances in the public interest. We expect that this would include exemption for what are known as orphan products, where there is a small market for the product, and perhaps some reduction or exemption for small businesses, although our revenue estimates do not take into account the possibility of any exemptions.

QUESTION: Would the introduction of user fees require regulations? How long would this process take?

ANSWER: FDA believes we could publish a proposal very soon after a law was passed. Allowing for a suitable public comment period and for agency review of those comments, it would probably take another several months to publish a final rule setting out the fees. Much would depend on the final form of such legislation as Congress passed it.

Budget Request

QUESTION: What was FDA's budget request for salaries and expenses submitted to the Public Health Service? How was this request modified by the Public Health Service, the Department of Health and Human Services, and the Office of Management and Budget? (For the record, please detail this request by funding and FTE's for each project and for AIDS activities.). Please provide the same breakdowns for buildings and facilities.

ANSWER: The information follows:

HISTORY OF FDA'S 1991 BUDGET REQUESTS
NON-AIDS

	Request to PHS		Request to DHHS		Request to OMB		Request to Congress	
	FTE	$000	FTE	$000	FTE	$000	FTE	$000
Foods	2,793	$222,817	2,503	$190,903	2,485	$184,654	2,717	$202,569
Drugs	3,448	280,365	3,221	244,466	3,268	250,127	3,348	266,023
Devices	1,421	100,201	1,322	96,003	1,312	94,193	1,242	88,445
NCTR	254	33,457	242	29,751	240	28,327	239	27,885
Program Management	322	31,320	322	35,398	322	35,481	348	37,981
Buildings & Facilities	—	26,450	—	21,450	—	13,450	—	4,752
Rent to GSA	—	40,765	—	40,765	—	25,612	—	25,612
FTEs in other accounts	185	—	185	—	185	—	185	—
Total	8.423	$735,375	7,795	$658,739	7,812	$631,844	8,079	$653,267
User Fees Proposed as Part of Total		$ 16,075		$ 16,075		$144,175		$157,175

HISTORY OF FDA'S 1991 BUDGET REQUESTS
AIDS

	Request to PHS		Request to DHHS		Request to OMB		Request to Congress	
	FTE	$000	FTE	$000	FTE	$000	FTE	$000
Drugs	713	$ 90,677	661	83,220	473	$ 54,527	473	$ 53,869
Devices	130	12,264	129	$ 8,506	107	6,156	107	9,367
Total	843	$102,941	790	$ 91,726	580	$ 64,568	580	$ 63,236

Buildings and Facilities

QUESTION: The President's 1991 budget includes $4,752,000 for repairs and improvement of FDA's facilities and laboratories. Based on the approved budget, which of these renovations and repairs receive priority?

ANSWER: The total of $4,752,000 requested will provide for the projects needed in 1991 to sustain FDA's basic operational capabilities, by assuring proper maintenance of government facilities and making limited laboratory improvements to ensure effective utilization of FDA's laboratory staffs and equipment. The work needed includes a wide variety of maintenance items such as road and roof repairs, maintenance of utility distribution systems, and minor laboratory renovations and upgrading of laboratory systems such as electrical, gas, water, and air circulation, as needed to meet changing laboratory testing needs and to support sophisticated analytical equipment.

QUESTION: How is FDA using the $8,350,000 provided for buildings and facilities in fiscal year 1990?

ANSWER: The current plan for 1990 Buildings and Facilities funds is as follows:

- Work needed to complete Module #1	$ 885,000
- Consolidation Plan (through GSA) (Development of Program of Requirements)	$1,200,000
- Foods - Renovation of FB-8 Labs and Dauphin Island, Alabama Research Lab	$ 300,000
- Biologics - Miscellaneous Renovations to Bldg. 29	$ 200,000
- Center for Veterinary Medicine - Modify/install new safety showers	$ 25,000
- Center for Devices and Radiological Products - Animal care facilities	$ 100,000
- NCTR - Water System Rehabilitation and Other miscellaneous repairs	$1,800,000
- Field Facilities - General Repairs and Improvements to FDA Field Facilities Nationwide such as replacement of fume hoods and upgrading lab electrical service	$ 340,000
- Reserve for AIDS building cost increase	$3,500,000
TOTAL 1990 APPROPRIATION	$8,350,000

QUESTION: Is FDA continuing work on consolidation of its Washington area facilities?

ANSWER: FDA is working very closely with GSA staff in analyzing the requirements for FDA operations in the Washington area, and over the next year they will be helping us develop a facilities detail programming document so that funding options and various modes of acquisition can be considered. We believe this detailed analysis of our needs will serve as an important basis for making decisions on consolidating FDA's Washington area facilities.

AIDS Facility at National Institutes of Health

QUESTION: A total of $25,000,000 has been provided for construction of an AIDS facility on the National Institutes of Health campus in metropolitan Washington. Is the appropriation provided adequate to complete the facility? If not, what is the amount of cost overruns that have accrued to date? What is the final amount that will be needed for the facility? For what purpose are additional funds needed?

ANSWER: FDA is continuing to examine the projected costs of the facility, with the assistance of NIH staff who are managing the design and construction of this building for FDA. NIH staff have indicated their belief that the facility's total costs may need to be as much as $3.5 million more than the $25 million provided by the Congress in 1989 appropriations action. We are currently evaluating these concerns, and will advise the Appropriations Committee if it is determined that any of our 1990 Buildings and Facilities appropriations will need to be devoted to this project.

QUESTION: Does FDA plan to submit a supplemental request for these funds? If not, through what means will these expenses be paid?

ANSWER: At present, we are reserving funds from our 1990 appropriation for this purpose. As the architectural and engineering design of the building proceeds, we will get a better idea of the cost of the building. However, construction costs are never known until a contract is awarded, which should occur in 1992.

QUESTION: Why is it necessary for FDA to make needed infrastructure improvements to NIH owned land? Will FDA obtain title to the facility upon completion?

ANSWER: Improvements to NIH utility systems are necessary to provide air conditioning capacity, for example, to support FDA's building. Also, some road and walkway modifications are necessary to accommodate the changes the building will require on the crowded NIH campus. FDA's formal agreement with NIH provides that FDA will occupy the building as long as FDA needs it.

Management Priorities

QUESTION: The 1990 appropriations conference report instructs FDA to assess the activities of its various centers, to identify organizational, staff, and equipment demands and priorities. What efforts has FDA taken to assess the priority to be given to regulatory, research, inspection and consumer activities? Will FDA recommend private-sector alternatives or discontinuation of low priority activities?

ANSWER: We are conducting a comprehensive needs assessment (CNA) to make a more accurate assessment of the resources needed to carry out our responsibilities. The CNA began by surveying all agency managers for suggestions about how we could meet our responsibilities more efficiently. Over 160 suggestions were received representing all product areas and every agency function. Suggestions have also been received from industry, the public, GAO, and the HHS Inspector General. These suggestions, including recommendations regarding the reduction of agency activities or a shift of activities to the private sector, are being costed out for the next seven years. When this assessment is completed, it will provide us with better understanding of the resources necessary to carry out all essential activities and will also ensure that we continue to adapt to changing technological, sociological, and regulatory environments. FDA will recommend alternative courses of action or discontinuation of activities if such options are determined to be needed and appropriate.

QUESTION: What steps is FDA taking to centralize its management decision making?

ANSWER: The agency's policy making is centralized. Policy decisions are made by the Commissioner, often in consultation with the Assistant Secretary for Health and with the Secretary. Also, significant regulations are reviewed by the Secretary. OMB reviews most FDA regulations under Executive Order 12291.

We are taking a number of steps to improve our ability to make regulatory decisions, which rely on sound science and on access to information. Many of the increases requested in the 1991 request will improve the agency's science capability to make well informed decisions. In addition, as described in the agency's justification of its 1991 request, a number of efforts are underway to improve our information systems, to improve the quality and accessibility of data from which decisions are derived.

As you may know, the Secretary has recently appointed an Advisory Committee on the Food and Drug Administration, which will be meeting for the next year to consider the mission and structure of the agency as well as other broad issues regarding FDA. The recommendations of this Committee should provide a basis for consideration of various steps to improve the management of the agency.

QUESTION: Has FDA conducted skill level assessments to help in the management of staff resources assigned to short- and long-term tasks?

ANSWER: No, we have not conducted any such specific assessments in recent years. However, we currently are conducting personnel management surveys in our field offices regarding management practices. In addition, we are currently involved in a supervisory skills training effort involving all supervisors within FDA. In the long run, both of these efforts could eventually have some bearing upon assessments of task management. Agency managers have a continuing responsibility to assess skills needed for various tasks.

QUESTION: Is FDA developing review and tracking systems for various products?

ANSWER: The agency has many review and tracking systems for all major categories of regulated products. We have systems for information on food additives and for tracking food additive petitions. For drugs and devices, there are registration and product listing systems as well as application review systems. The Field organization maintains extensive systems for tracking data from inspections and product tests.

As noted in the agency's budget justification, most of these major systems are in the process of significant systems improvement.

Drug Approvals

QUESTION: In your statement, you mention that FDA approved six new chemical compounds in 1989. What are these compounds; what are their potential uses; and how does this approval record for new compounds compare to the three previous years?

ANSWER: The statement mentioned that we approved six new chemical compounds in 14 months or less. We actually approved a total of 23 chemical entities in 1989. A list of these new chemicals and their uses, as well as a record of approvals in the previous three years follows:

Approval Record

	1985	1986	1987	1988	1989
New Chemical Entities	30	20	21	20	23
Important Therapeutic Gain	3	1	2	4	4

New Chemical Drug Entities - 1989

Generic/Trade Name	Indication/Use
Flutamide/Eulexin	Treatment of metastatic prostate carcinoma
Cefpiramide Sodium/none	Treatment of pneumonia and skin and skin structure infections
Carboplatin/Paraplatin	Palliative treatment of ovarian carcinoma

Generic/Trade Name	Indication/Use
Cefixime/Suprax	Treatment of urinary tract infections, otitis media, pharyngitis, tonsillitis, acute bronchitis, and acute exacerbations of chronic bronchitis.
Mefloquine HCl/Lariam	Treatment and prophylaxis of malaria
Selegiline HCl/Eldepryl	Adjunct in management of Parkinsonian patients treated with levadopa/carbidopa
Ganciclovir/Cytovene	Treatment of cytomegalovirus retinitis
Omeprazole/Losec	Inflammation of the esophagus
Clozapine/Clozaril	Management of severely ill schizophrenic patients
Propofol/Diprivan	Anesthetic
Adenosine/Adenocard	Conversion of paroxysmal supraventricular tachycardia to sinus rhythm
Ketorolac Tromethamine/Toradol	Short term management of pain
Propafenone/Rythmol	Treatment of ventricular arrhythmias that are life-threatening
Iotrolan/Osmovist	Imaging agent
Cefmetazole/Zefazone	Antibiotic
Pinacidil/Pindac	Treatment of hypertension
Indecainide/Decabid	Treatment of life-threatening ventricular arrythmias
Ethinyl Estradiol/Ortho Cyclen	Prevention of pregnancy
Dezocine/Dalgan	Pain reliever
Clomipramine HCl/Anafranil	Treatment of obsessive compulsive disorder
Rubidium Chloride Rb-82/ Cardiogen-82	Imaging agent
Goserelin Acetate/Zoladex	Palliative treatment of advanced carcinoma of the prostate
Metipranolol HCl/Betamet	Glaucoma and other ocular conditions

QUESTION: If you had to pinpoint the main reasons for continued delay in NDA approvals, would qualified staff; lack of computerization; inadequate facilities; sufficient laboratory equipment; competing agency priorities, such as for AIDS therapies or generic approvals; etc. be cited? Please include other reasons in your response, and rank the reasons by impact on the NDA approval process.

ANSWER: Insufficient qualified staff would be at the top of the list of reasons for delays continuing to occur in the NDA review process. So much productivity time is lost due to the lack of experienced trained reviewers. Efforts that might be spent in the training of entry-level staff takes away from review time. This has a double impact in that, increasingly, NDAs are becoming more complex because of biotechnology and other scientific advancements, and are requiring more experienced, knowledgeable scientists to evaluate them. I should mention that FDA's 1991 request includes funds for additional drug reviewers to address this concern.

Next on this impact list would be competing agency priorities. These priorities include such activities as the generic drug reviews, OTC drug reviews, reviewing Treatment INDs/protocols, reviewing new INDs, IND amendments, and the development of regulations and guidelines.

Finally, inadequate office space for reviewers and inadequate space for document storage and retrieval serve as continual impediments to the expeditious review of NDAs. Reviewers within the same review divisions often end up isolated from one another, either by floors within the same building or by separate buildings. NDA documents must be housed wherever there is secure space and overcrowding means that storage must sometimes occur in buildings separate from reviewers. Time spent commuting or waiting for the retrieval of documents delays reviews.

It should be noted that the quality of the application is a substantial factor in review time — most applications are delayed several times while FDA seeks additional information.

Generic Animal Drug and Patent Term Restoration Act

QUESTION: The 1990 appropriations conference report included language on the Generic Animal Drug and Patent Term Restoration Act. What amount of 1990 funds will be devoted to the generic animal drug activities? How much is being spent on patent term activities for animal drugs?

ANSWERS: FDA has allocated about $2,700,000 to carry out this Act, including patent term extension activities. However, since the agency is still gearing up to conduct generic animal drug approvals, very little (probably less than $100,000) will be devoted directly to patent term extension work during 1990.

QUESTION: How many FTE's are working on the Generic Animal Drug and Patent Term Restoration Act?

ANSWER: FDA has allocated 35 FTEs to the Generic Animal Drug and Patent Term Restoration Act. This includes such work as reviewing investigations of new animal drugs (INADs), abbreviated new animal drug applications (NADAs) suitability petitions, request for waiver of studies, policy development, review and comments on draft proposals for procedural regulations, preparation of OMB clearance documents, preparation of Federal Register notices, revision of compliance programs, developing enforcement strategy etc. FDA has been aggressively and successfully recruiting to meet this need. At present there are 17 FTE on board working on the Generic Animal Drug and Patent Term Restoration Act.

QUESTION: What is FDA doing to protect against any potential problems in review of animal generic drug applications similar to the problems experienced by human generic drugs recently?

ANSWER: FDA has made a thorough examination of its policies and procedures for conducting reviews of new animal drug applications including ANADAs. The purposes of the review were to determine whether current policies and procedures were adequate to avoid problems similar to those experienced with human generic drugs, and to determine whether the policies and procedures were being followed in practice. We have concluded that the policies and procedures are more than adequate, and are being followed.

To ensure that all applications are given equal consideration, FDA will monitor them electronically. This will ensure that the applications are handled on a first in-first out basis, and that each application will be processed in its proper turn throughout the entire review. The animal drug Quality Control Staff will monitor the processing of applications. In addition, those who are responsible for processing animal drug applications are working closely with personnel who handle human drug applications, to learn and benefit from their experiences. Finally, FDA is planning a Generic Animal Drug Day that will provide all responsible managers and supervisors with an opportunity to hear, discuss and understand the policies, procedures, and potential problem areas.

QUESTION: Is FDA conducting any field inspections of animal generic drugs manufacturers for compliance with good manufacturing practices requirements?

ANSWER: FDA is not presently conducting inspections of generic animal drugs because the initial generic ANADAs have not progressed to the stage of issuing preapproval inspection assignments. However, we expect to begin conducting such field inspections within the next year.

National Center for Toxicological Research

QUESTION: The Committee directed FDA to complete a feasibility study of national biotechnology center at the National Center for Toxicological Research in Arkansas by March 30, 1990. What is the status of this report?

ANSWER: The data collection phases of the feasibility studies to gauge the interest and determine general requirements for a National Biotechnology Cooperative have been completed and the data is being analyzed.

QUESTION: What will be the cost of the next phase of renovation and construction of the biotechnology center?

ANSWER: The cost of the next phase of renovation and construction would be approximately $30 million. This would include the design and renovation costs for the most immediate and basic needs identified in the survey. One of the most important aspects of planning for a National Biotechnology Cooperative would be the need to retain flexibility over the type of space needed at each stage. Accordingly, we would expect to develop a phased plan that would create the initial core facility. After completion of the core facility, we would evaluate the need for any additional renovations, based on such additional needs as may become evident. It should be noted, however, that FDA is not requesting funds for this project within the overall priorities of the 1991 President's budget proposal.

QUESTION: How many private, academic, and public sector organizations have expressed an interest in the biotechnology project at NCTR?

ANSWER: The feasibility study has firmly established that 215 private sector organizations (out of 339 survey respondents) have expressed a willingness to commit both financial aid and resources to the project at NCTR. The feasibility study was primarily directed to the private sector and not the academic sector, but several universities have indicated their interest, nonetheless. In the public sector, offices within USDA, EPA, and the Department of Commerce have also expressed a willingness to commit resources to the project at NCTR.

QUESTION: Does NCTR have the resources and expertise to assist in any food safety programs?

ANSWER: Yes, NCTR has resources and scientific expertise, and NCTR currently supports ongoing food safety programs. NCTR is engaging in joint efforts with the Center for Food Safety and Applied Nutrition (CFSAN) to develop a research protocol to study a group of polyaromatic compounds; to enhance ADP support in animal testing; and to support risk communication efforts. Moreover, the core program and overall mission of NCTR directly supports the long-term needs of CFSAN. Research of the type underway at NCTR will enable FDA to better assess human risks.

NCTR's capabilities in support of food safety include the following:

Conducting studies of occurrence of biochemical mode of action and toxicological properties of compounds known to occur in the food supply, and improving the basis for evaluating the risks resulting from human exposure.

Developing toxicological methods, particularly in neurobehavioral, mutagenic, and immunotoxicological areas.

Conducting studies to identify pathogenic and toxic factors in food borne bacteria and viruses.

Assisting in the development of analytical methods to determine the presence and amount of food additives and contaminants.

Conducting toxicological bioassays on "high concern" compounds.

Continuing to conduct nutritional studies such as modulatory effects of caloric restriction on the toxicity.

Developing collaborative studies for improving laboratory analytical methods.

Participating in joint research programs with other Federal agencies (i.e., Environmental Protection Agency (EPA), National Institute on Aging (NIA) and other agencies) to develop scientific and technical information on chemical contaminants, including carcinogens in the human environment and food chain.

Field Capabilities

QUESTION: Noting the drain on resources as a result of various national emergencies in recent years, the 1991 budget includes $6,600,000 and 75 FTE's to restore FDA's field capabilities. What specific products and services inspections have been required on an emergency basis during fiscal years 1989 and 1990? How many FTE's were detailed to each of these inspection programs?

ANSWER: During FY 1989 the Agency expended a total of 422 FTE's on emergencies and major unplanned activities. A list of the specific products/activities follows:

Resource Expenditures on Emergencies
and Major Unplanned Work
FY 1989

Program	FTEs
Adulteration/Foods & Drugs	7
Consumer Complaints	110
Chernobyl Investigations	3
Counterfeit Drugs	3
Condoms	5
Surgical Gloves	34
Other AIDS Activities	51
Chilean Fruit Activity	63
Generic Drugs	146
Total	422

During the first five months of FY 1990, FDA has used 148 FTE's on emergencies and major unplanned activities. A list of the specific products/activities follows:

Resource Expenditures on Emergencies
and Major Unplanned Work
5 Months - FY 1990

Program	FTEs
Adulteration/Foods & Drugs	1
Consumer Complaints	39
L-Tryptophan	33
Counterfeit Drugs	2
Condoms	1
Surgical Gloves	7
Other AIDS Activities	15
Generic Drugs	50
Total	148

QUESTION: What specific inspection operations have been instituted or reinstituted during fiscal years 1989 and 1990 that have required additional staff resources or transfer of staff from other activities? How many FTEs continue to be provided for these activities?

ANSWER: Two major inspectional activities were instituted/reinstituted during FY 1989/1990. Due to the AIDS epidemic, coverage of blood banks was increased from the biennial statutory requirement (once every two years) to an annual cycle in FY 1989. Also in FY 1989 coverage of the generic drug industry was increased/modified from the traditional biennial GMP program to one of detailed investigational activities covering specific ANDAs (Abbreviated New Drug Applications), special sampling surveys of products currently on the market, etc. In FY 1990, 128 FTEs are allocated to annual coverage of blood banks and 220 FTEs to generic human drug activities.

QUESTION: What amount of funds and number of staff is requested for imported foods? For what other products?

ANSWER: A total of 40 FTEs are included in the additional 75 FTEs requested for FY 1991 to restore FDA's field capability relative to coverage of imported food products. The other 35 FTEs in the Foods request are for inspections and sampling of domestic products.

In addition to the 75 FTEs for restoration of food programs, 25 additional FTEs are requested for human drugs; 13 for medical devices; and 12 for animal drugs and feeds for a total of 125 FTEs.

Human Drug Approvals

QUESTION: The 1990 budget estimated new drug application reviews at 325, yet the 1991 budget reduces that number to 285. Why is this?

ANSWER: Our estimates for future year activity are based upon an assumed rate of increase from actual workload. The actual 1988 new drug reviews fell below the estimated number by 7, and also below the estimated 1989 level of activity by 17. This was contrary to our expectations and our 1991 budget reflects a downward adjustment in our future year estimates.

QUESTION: Non-clinical and clinical study investigations have increased markedly in the past two years. Why?

ANSWER: The actual number of investigations conducted in 1987 was 654, in 1988, 573, and in 1989, 471. In actual terms, the rate has in fact decreased. We attribute this reduction primarily to the advent of emergencies - the Chilean Grape crisis, for instance, and the generic drug problem in 1989 - which required redirected assignments of many of our investigative resources. We continue to show an increase in our FY 1990 and 1991 estimates of investigations, anticipating the provision of additional resources to alleviate the burden on existing staff for emergencies and enabling us to address a backlog of assignments as well as new investigations which we estimate will be required.

QUESTION: For the record, would you please provide new drug approval timeframes over the past three years, including and setting apart AIDS therapies.

ANSWER: Approval Time (in months) 1987-1989

	1987	1988	1989
All NDAs [1/]	26.8	29.6	29.9
AIDS NDAs			
Zidovudine			
Capsules	3.5		
Syrup			11.0
Ganciclovir 2/			25.0
Pentamidine, aeros.			11.0

1/ Mean approval time - calculated in months from receipt date to the approval date.

2/ NDA withdrawn 11/23/88 and resubmitted 5/1/89.

QUESTION: Why was the 1990 estimate of FTEs working on new human drug evaluations revised from 743 to 653 in budget justifications? Does the 1990 estimate of FTEs working on AIDS provide any rationale for this revision?

ANSWER: As with our estimates of workload data, we base our estimates of FTE usage upon actual usage. The FTEs actually devoted to new drug evaluations in 1989 fell below our estimates. This reduction did not occur within the review divisions or in directly related support activities, but rather in the field and other support and overhead activity where some diversion of resources took place to devote to the generic drug problem. Our estimate of 1990 FTEs was adjusted downward consistent with the 1989 actual FTEs. The FTEs assigned to AIDS have no bearing on this revision.

Human Generic Drugs

QUESTION: Following highly publicized problems last year, Congress provided an increase of $4,000,000 in appropriations to help FDA meet evaluation and surveillance requirements for human generic drugs. The 1991 budget requests a supplemental for an additional $13,900,000 and 125 FTEs for human generic drugs. From what activities were FTEs detailed in fiscal year 1989 to meet the human generic drug emergency? Have these field staff been returned to their former assigned responsibilities? What is the effect of their transfers on routine operations?

ANSWER: At headquarters, a total of 38 persons from several divisions within the Office of Compliance of the Center for Drugs Evaluation and Research were detailed to the Generic Drugs Compliance Staff in 1989 to provide central focus and direction within FDA regarding the generic drug emergency. It is estimated that approximately 24,000 hours of work effort were expended during the last six months of 1989.

During 1989, the FDA field workforce expended 146 FTEs on field activities related to the generic drug emergency. The vast majority of these resources were diverted from other human drug work such as GMP inspections, health fraud, bioresearch monitoring, clinical/nonclinical investigations, and drug product surveillance.

Many program activities were curtailed or postponed especially during the peak of our investigations. We could not meet our statutory biennial inspection requirements, could not provide follow-up related to health fraud and bioresearch assignments, and no surveys of non-generic drug products on the market could be initiated while the extensive generic drug testing studies were undertaken.

These resources have been returned to the regularly-assigned programs as increased resources are being made available to us which are specifically targeted to support generic drugs activities.

QUESTION: Will the Administration submit a supplemental request separate from the 1991 budget? How will user fees be collected and distributed specifically to affect human generic drugs?

ANSWER: A Supplemental request for 1990 was included in the President's 1991 budget document and explained in the agency's 1991 Justification. We have proposed that a fee will be paid by the sponsor for each original ANDA submitted to FDA for approval. This fee will be used to underwrite increased expenditures related to the review process. In addition, our proposal calls for an annual registration fee per approved ANDA which will be applied to expanded FDA surveillance of marketed generic drugs.

Blood Supply and Resources

QUESTION: The 1991 budget notes that unanticipated emergencies often drain FDA resources for routine inspections of drug and device manufacturing plants, blood banks, food establishments, and laboratories. What is the status of FDA's inspections of blood banks? How can the American consumer be assured that our blood supply is safe?

ANSWER: We are continuing the annual inspection of all FDA-regulated blood donor facilities. In 1989, this amounted to an inspection of 2,688 facilities. We are continuing to find deviations which are a reflection of the growing sophistication and effectiveness of our inspections. For example, our investigators, who have been receiving more intensified training, are better equipped to uncover deviations, especially in the areas of testing for hepatitis b and HIV-1. Educational efforts with the industry have led to increased self-examination by blood banks which have uncovered deviations and led to a number of recalls. We classified and published 228 recall actions involving blood, blood components, or plasma. This is an increase of 170 percent over the 84 recalls published in 1988, and represents one of the measurements of the ways in which we are working successfully to help assure the public that the blood supply of our nation is safe. Other FDA efforts to help assure the safety of the Nation's blood supply include approving products designed and developed to screen blood and blood products, monitoring laboratory proficiency, licensing of blood banks, and recommending donor deferral criteria for high-risk donors.

QUESTION: From what other project activities have resources been borrowed? How has this affected on-going activities?

ANSWER: Experience has shown that for emergencies such as the Chilean fruit tampering incident, and urgent generic drug investigations, we have had to call upon resources initially allocated to our monitoring programs. We have had to borrow from routine inspection programs of drug and device firms, food establishment inspections, and our laboratory sample analyses efforts. The net result has been delays in some instances of inspections of drug and device firms, a reduction in the number of food establishment inspections, and a reduction in the number of laboratory sample analyses.

Personnel and Training

QUESTION: The 1990 Senate and conference reports instruct FDA to provide information on recruitment of medical and scientific personnel and to expand regulatory training and fellowship programs at FDA. What efforts has FDA made to expand regulatory training and fellowship programs? In what way will these programs help FDA to establish a pool of qualified candidates to meet its full-time personnel requirements?

ANSWER: There are two clinical pharmacology fellowship programs. The Drug Information Association sponsors a fellowship in clinical pharmacology and drug regulation with participation in the clinical pharmacology teaching, training and research programs at Georgetown University, receiving training in drug evaluation, regulatory science, and research methods at the Center for Drug Evaluation and Research. Although intended to address the need for training programs for individuals who wish to pursue a career in the field of drug regulation, this program does not involve appointment to FDA. The other program, jointly conducted by the FDA and the Uniformed Services University of the Health Sciences, offers physician training in clinical pharmacology and regulatory drug evaluation sciences in preparation for a post in new drug review.

Expansion of FDA's training and fellowship program effort is exemplified by the establishment of a fellowship program to provide training in cancer clinical trials, drug law, and regulatory science offered jointly by the FDA Center for Drug Evaluation and Research and the NIH National Cancer Institute. The rapid pace of progress in biotechnology, the increased rate of development of new therapeutic agents and the progressively greater complexity of the regulation of such agents have led to a need for more physicians with special skills in drug development and regulation. This fellowship program, the first formal training program in the area of regulatory oncologic medicine, was established in the fall of 1989, to address this need. It is anticipated that graduates of the program will have an excellent foundation for a subsequent career in this discipline. Fellowships are available for two physicians per year, and the first two participants with FDA will begin in July, 1990.

We believe that any effort to enhance awareness and knowledge of FDA's regulatory world also contributes to assisting FDA to attract candidates for employment. While the training and fellowship programs now in operation do not seem to contribute in large scale to a pool of qualified candidates, we believe that these efforts do create a valuable service by attracting potential candidates to FDA and demonstrating the value of a career in regulatory medicine.

QUESTION: When will the Committee receive the requested report on recruitment of medical and scientific professionals due on October 1, 1989 from FDA?

ANSWER: We are just completing our second version of this report, in response to criticism that the documentation included in the initial draft report was inadequate to support the position in the report. We therefore made it our objective to make sure our data are as comprehensive as possible and have worked with PHS and Departmental staff in thorough analyses of the recruitment and retention data. The report is now being reviewed within the Department and we expect it to be transmitted soon.

QUESTION: What specific new efforts has FDA made to assist small businesses as a result of the 1990 appropriations act? What is the total funding available for such assistance? By what amount has it been increased in 1990?

ANSWER: For 1990, FDA increased its small manufacturers assistance efforts by 6 FTEs at a cost of $500,000. Total expenditures of 20 FTEs and $2.0 million are planned for 1990. These additional resources are applied primarily in two areas:

- o AIDS-related devices - During the first half of 1990 FDA's Division of Small Manufacturers Assistance conducted 16 workshops, with more than 3,000 registrants, throughout the U.S. The workshops focused on the application of FDA's regulatory requirements for AIDS-related devices such as medical gloves, condoms, and other barrier-type devices; and,
- o Device export - FDA has worked closely with the Department of Commerce to foster the export of U.S. made medical equipment. Through workshops, publications, and letter and telephone responses, FDA has advised the industry of the regulatory requirements for the export of medical devices.

Devices and Radiological Products

QUESTION: What are the class III pre-Amendments devices for which FDA has established effective dates requiring the filing of premarket approval applications (PMAs)?

ANSWER: In the Federal Register of January 6, 1989, FDA initiated proceedings to call for PMAs for 31 high priority class III pre-Amendments devices, which are:

herpes simplex virus serological reagents;
rubella virus serological reagents;
electroanesthesia apparatus;
membrane lung for long-term pulmonary support;
vascular graft prosthesis of less than 6 millimeters diameter;

intro-aortic balloon and control system;
endosseous implant;
endodontic dry heat sterilizer;
endolymphatic shunt tube with valve;
testicular prosthesis;
electrohydraulic lithotripter;
silicone inflatable breast prosthesis;
silicone gel-filled breast prosthesis;
chemical cold pack snakebite kit;
cranial electrotherapy stimulator;
endometrial washer;
endoscopic electrocautery and accessories;
powered vaginal muscle stimulator for therapeutic use;
keratoprosthesis;
eye valve implant;
knee joint femorotibial metallic constrained cemented prothesis;
knee joint patellofemoral polymer/metal semi-constrained cemented prosthesis;
knee joint patellofemoral polymer/metal/metal constrained cemented prosthesis;
knee joint femoral (hemi-knee) metallic uncemented prosthesis;
knee joint patellar (hemi-knee) metallic resurfacing uncemented prosthesis when intended for uses other than treatment of degenerative and posttraumatic patellar arthritis;
shoulder joint metal/polymer constrained cemented prosthesis;
shoulder joint metal/polymer, non-constrained cemented prosthesis;
shoulder joint metal/polymer, semi-constrained cemented prosthesis;
shoulder joint glenoid (hemi-shoulder), metallic cemented prosthesis;
rigid pneumatic structure orthosis; and
stair climbing wheelchair.

QUESTION: Where will the additional 55 FTEs proposed in the budget be located?

ANSWER: For the medical devices and radiological products program, FDA requested 49 FTEs. Thirteen FTEs will be used to restore device field activities which were reduced to handle unanticipated emergencies. Fifteen FTEs will be used to enhance review of new device applications, including pre-Amendments PMAs and petitions to reclassify devices. Seven FTEs will enable FDA to establish and maintain comprehensive scientific competence in its biomaterials program; to expand fluid dynamics and flow related research; and to keep abreast of changing program needs in such areas as its medical device materials program. Eight FTEs will be used to integrate trend analysis into the routine Medical Device Reporting (MDR) evaluations to check for increases and decreases in various types of device related problems. In addition, FDA will assess the feasibility of expanding its postmarketing surveillance program by establishing a model problem reporting program among a network of teaching/research hospitals. In its fully operational phase, the program would create a "sentinel system," allowing FDA to test the effectiveness of hospital reporting. Six FTEs will be devoted to medical device AIDS-related activities. Such activities will include expansion of research on the effectiveness of existing disinfectants and methods to evaluate disinfectant efficacy; continuation of activities aimed at informing the public and health professionals about the proper use and reuse of medical devices to prevent transmission of HIV; and continuation of the enhanced evaluation program for condoms and medical gloves. Thus, 13 FTEs will be in the field, with the remaining 36 FTEs at the Center for Devices and Radiological Health.

QUESTION: What is the total number of personnel devoted to postmarket surveillance?

ANSWER: Fifty-three headquarters FTEs and 25 field FTEs are devoted to postmarket surveillance of medical devices and radiological products. (This program is devoted to monitoring experience information on marketed devices, and is distinct from FDA's other device inspection and testing programs.)

QUESTION: Is there continuing growth in the number of new device applications submitted for approval? Is FDA keeping pace in its review processes?

ANSWER: The workload in FDA's medical device review program increases yearly, both in numbers of applications received and the complexity of technologies which must be evaluated. For example, in 1989, FDA received a record number of major medical device submissions. Major submissions received rose from 10,018 in 1988 to 11,195 in 1989, an increase of 12%. In addition, as the device program matures, there is also an increase in ancillary product evaluation activities such as reclassification petitions, requests for information and guidance, and policy development and modification.

FDA constantly seeks to increase its efficiency to keep pace with the increasing workload. Greater efficiency has been achieved through resource reallocation, elimination of outmoded and unnecessary procedures and the institution of administrative improvements. However, without the additional resources requested in the President's budget, FDA is concerned that it will not be able to keep pace with technological innovations and workload growth. The additional resources will result in a more timely and higher- quality review of devices which can dramatically improve the quality of life, affect the quality of health care, and provide more cost-effective clinical alternatives. These improvements will significantly benefit both device manufacturers and the general public.

Erythropoietin

QUESTION: The Food and Drug Administration has approved a drug called erythropoietin (EPO), which could benefit over a million patients. Under its present indication, more than 600,000 patients who suffer from anemia associated with chronic renal failure will have access to a major therapeutic benefit. Is it true that last year Kirin-Amgen received approval of EPO for chronic renal failure? Is this indication different from end stage renal disease for which an orphan designation has been granted? If so, is this change in designation permitted under the Orphan Drug Act?

ANSWER: On June 1, 1989, a letter of approval was issued for Amgen's erythropoietin product, Epogen (epoietin alfa), for the treatment of anemia associated with chronic renal failure, including patients on dialysis (end stage renal disease) and patients not on dialysis. The orphan drug designation indication was for anemia associated with end stage renal disease. As stated in the approved indication, chronic renal failure is broader and inclusive of renal failure patients on dialysis as well as patients not yet on dialysis.

There was confusion and misunderstanding over the terms `end stage renal disease' and `chronic renal failure'. Since the approved indication was for chronic renal failure and since Amgen originally requested designation for anemia associated with end-stage renal disease that was considered the same as chronic renal failure, exclusivity was given for chronic renal failure. Kirin-Amgen's competitor, The Upjohn Company, has petitioned FDA to review this action and we are doing so.

QUESTION: The Kirin-Amgen version of EPO has been held by the Federal District Court in Boston to infringe a product patent held by Genetics Institute. Has the FDA determined that the Orphan Drug law prevents the agency from approving Genetics Institute's version of EPO? What is FDA doing to resolve the problem?

ANSWER: FDA is currently reviewing the clinical data and related information submitted by those seeking approval of the erythropoeitin product associated with Genetics Institute interests. Until this regulatory review process is completed and a determination made that the requirements for product approval are met, the resolution of all orphan drug issues that may arise is premature. FDA has been seeking to identify and prepare optional policy alternatives for a wide range of issues that might have to be addressed for this and similar cases in the future. In addition, the House Committee on Energy and Commerce is considering amendments to the Orphan Drug Act.

QUESTION: Does Marogen, another erythropoietin, have a different molecular structure than the Kirin-Amgen product? If the molecular structure of Marogen is different, should Marogen be approved in accordance with the Orphan Drug Act?

ANSWER: This is a question which is receiving considerable attention within FDA. It appears that all of the recombinant EPO products have the same primary amino acid structure. However, since these products need glycolysation for in vivo activity, they all have complex sugar molecules attached. It appears that these complex sugar molecules differ not only from product to product, but possibly also from batch to batch. FDA is presently addressing the question of which differences make a drug "different" under the Orphan Drug Act.

QUESTIONS SUBMITTED BY SENATOR BUMPERS

Budget Request

QUESTION: I am interested in knowing more about the process through which the administration arrived at the budget request for your Agency. Last June you testified before the Small Business Committee Hearing on user fees and their effect on small drug and device companies. You stated that FDA had originally sought $10.1 million in user fees, and that by the time OMB put the finishing touches on the request, it was $100 million. I think we can assume that those who run the FDA would know the most about the Agency's actual needs.

What was your original request for those user fees this year? What level did the Public Health Service, the Department of Health and Human Services, and OMB recommend? What was FDA's budget request for salaries and expenses you submitted to the Public Health Service? How was it modified by PHS, HHS, and OMB? What about the request for buildings and facilities? How was that request modified by PHS, HHS, and OMB?

ANSWER: FDA's budget requests are modified as we go through the budget process as PHS, HHS, and OMB consider competing needs at each level of the process. The information follows:

HISTORY OF FDA'S 1991 BUDGET REQUESTS

	Request To PHS $000	Request To DHHS $000	Request To OMB $000	Request To Congress $000
Salaries & Expenses	$787,176	$688,250	$657,350	$654,808
Buildings & Facilities	26,450	21,450	13,450	4,752
Rent to GSA	40,765	40,765	25,612	25,612
TOTALS	$854,391	$750,465	$696,412	$685,172
User Fees Proposed as Part of Total	$ 16,075	$ 16,075	$144,175	$157,175

Training Program

QUESTION: I recently learned of a joint training program being supported by the FDA in conjunction with the National Cancer Institute's pediatric oncology division. I was pleased to see the collaboration between the two agencies. Do you believe that such a program will have pay-offs down the road with regard to expediting the development of important clinical trials? expediting drug review?

ANSWER: Overall, the presence of a fellowship program stimulates the scientific environment of our agency. Veteran staff serve as mentors and research collaborators to the fellows. They also function as instructors in in-house formal course offerings. Each individual fellowship program is aligned with a specific medical specialty, i.e., oncology, but all contain a regulatory science core that is taught by experienced scientists. Upon completion of any of these fellowships, an individual will be fully competent to function as a clinical reviewer of new drug applications. Properly trained clinical reviewers are key to the expedited review of NDAs. The payoff we hope for is a decision by some if not all of the fellows to seek post-fellowship employment with our agency.

The program to which you refer is a three-year post-doctoral fellowship designed to train physicians in clinical oncology, clinical trials design and conduct, and in drug regulatory science. Review of oncologic drugs in recent years has been relatively rapid. We are hopeful that the fellowship program can help it stay this way. In addition, we hope that such programs, if even in a small way, contribute to the quality of clinical research generally.

QUESTION: Are there other areas, such as AIDS, cardiovascular drugs, biotechnology products, where we should evaluate the feasibility of implementing similar programs?

ANSWER: We are currently in negotiations with a variety of institutions with the goal of establishing additional fellowship agreements. These include the National Institute on Allergy and Infectious Diseases in virology; the Alcohol, Drug Abuse and Mental Health Administration in neuroscience; and, the American Association of Colleges of Pharmacy in clinical pharmacology.

Staffing

QUESTION: You have estimated that if the rate of product applications continues, you will double your product applications, from 15,000 to 30,000 early in the 21st century. With the current level of staffing, is the FDA able to keep pace with the demands of the industry?

ANSWER: It seems to be a constant struggle. The current level of staffing only allows us to keep pace with the anticipated current workload. As more and more applications are submitted for review, our staffing needs will also increase if we are to continue to expedite the review process and keep up with the influx of applications to be reviewed. The 1991 request includes increases to enable FDA to keep up with the application workload related to AIDS, as well as increases for other drug and device reviews.

QUESTION SUBMITTED BY SENATOR ADAMS

Generic Drugs

QUESTION: In light of the fact that a number of generic drug companies and their executives have pleaded guilty to paying illegal gratuities to FDA employees to expedite the review of their applications, have you determined which applications submitted by those wrongdoing firms received expedited review?

ANSWER: FDA's re-examination of the subject applications did not reveal any evidence that the review process for those applications was in fact expedited.

QUESTION: What, if any, efforts have you undertaken to verify that each ANDA that received expedited review are true and accurate, and that the products being marketed by the wrong-doing companies are the same as represented in the ANDA submitted?

ANSWER: Although, as I mentioned previously, there is no evidence of expedited review of the involved applications, we have re-examined a sample of applications from firms that were implicated in illegal gratuities and conducted on-site inspections of each of their manufacturing facilities. These actions were taken to determine which, if any, of the affected products, raised significant questions regarding bioequivalency. We have initiated proceedings to withdraw approval of those drugs where we suspect problems. The evidence obtained by the agency thus far suggests that the other products being marketed are the same as represented in the ANDAs submitted.

QUESTION: Has any effort been undertaken by FDA to notify those companies that have not been implicated in any wrongdoing as to which of their applications were affected detrimentally by FDA's favoritism?

ANSWER: No such notice has been given because we have not found any evidence that any application received an expedited review. We have analyzed applications submitted by the firms implicated in illegal gratuities as well as those not so implicated, and have found no pattern of advantage or disadvantage.

QUESTION: Has FDA taken any steps to sanction those firms who have been implicated in the paying of illegal gratuities to FDA employees?

ANSWER: The sanctions provided by law for illegal gratuities are criminal in nature and are being pursued by the Department of Justice with the cooperation of FDA. Although we considered initiating an administrative action to withdraw all applications submitted by the firms involved in illegal gratuities, we concluded that the agency has no authority to do so. We also considered debarring such companies from receiving future approvals, but determined that new legislation is needed to provide such authority. On April 23, 1990, the Administration transmitted to Congress a draft bill entitled, "Food, Drug, and Device Fraud and Abuse Prevention Act of 1990", designed to enhance the Department's ability to protect the integrity of the approval process for drugs, devices, and other products regulated by FDA.

QUESTION: Has FDA undertaken any effort to examine the ANDAs of any firms implicated in recent criminal wrongdoing to determine whether any confidential information from other companies' ANDAs was "lifted" for incorporation into the ANDA of the wrongdoing company?

ANSWER: Allegations of the "leaking" of confidential data and information have been investigated, with our full cooperation, by the Office of the Inspector General (OIG). Although we are aware that one former employee has been charged with such activities, the agency has not been provided with information identifying which applications were so affected. The OIG closed another such case on July 27, 1989 concluding the case was unfounded. That case, however, is the subject of ongoing litigation in Federal Court.

The agency is prepared to assess ANDAs for similarities to ANDAs filed by different companies where there is evidence of an illegal transfer of confidential commercial information. Although we have considered a general assessment of all similarities in ANDAs, we concluded that such an undirected effort would not be useful since many similarities in formulation and manufacturing process would not, in and of themselves, indicate that there has been an illegal transfer of confidential information.

QUESTION: Have you notified those companies which have been injured commercially as a result of FDA employees' unauthorized disclosures of confidential information?

ANSWER: No such notice has been given because there has been no finding of any such unauthorized disclosures by any FDA employees. There are, of course, ongoing investigations that have not yet resulted in public findings. (In a press release dated 3/16/90, the office of the U.S. Attorney for the District of Maryland, stated that one individual who pleaded guilty to charges that he provided unlawful benefits to employees of the FDA had also advised another FDA employee to collect information regarding formulations and analytical methods for certain drug products about to come off patent. Although the press release does not state that the FDA employee followed the advice, it implies that the opportunity certainly existed for the unauthorized disclosure of confidential information by that FDA employee.)

QUESTION: Have you determined how many ANDAs for various drugs submitted by firms that have not been implicated were compromised by the illegal actions of FDA employees who have pleaded guilty recently for receiving illegal gratuities?

ANSWER: As I indicated in my responses to your first and third questions we have found no evidence that such an ANDA was compromised.

QUESTION: In its response to Chairman Dingell's questions of December 5, 1989 concerning FDA's "alert list", FDA stated that the list is "designed to temporarily prevent the inadvertent approval of affected applications for manufacturers of products in facilities not currently in compliance with CGMPs." FDA also reported that "with respect to the 11 firms targeted for special inspections, because of their involvement in illegal gratuities or other "for cause" reasons, all administrative approvals were placed in abeyance which had the same effect as placing all of them on the alert list." What affect has the action described above had upon the agency's ability to process the backlog of pending applications by companies that are not on the alert list?

ANSWER: None. We are following a "first-in, first-reviewed" policy. All abbreviated applications are being processed under this policy, including firms placed on the "alert list". Firms on the "alert list" do not receive approval of an application, however, until the issues which caused them to be placed on the "alert list" are resolved to our satisfaction with regard to that application.

QUESTION: Is the FDA devoting specific resources to processing the ANDAs of those companies that have not been implicated in any wrongdoing in order to meet the 180-day review and approval period mandated by the Food, Drug and Cosmetic Act?

ANSWER: Although we have not devoted special resources to processing ANDA's of companies not implicated in any wrongdoing, we are devoting substantial resources to strengthening the generic drug review process, and have requested a FY 1990 Supplemental of $13.9 million, to be financed through user fee collections, for this purpose. We are requesting a further increase in FY 1991 of $10.2 million to allow for both thorough and prompt review of ANDAs. It is our goal to review all drug applications within the statutory 180-day timeframe following our "first-in, first-reviewed" policy with all applications. The agency has determined, however, that an attempt on the part of an applicant or its employees to undermine the integrity of the ANDA approval process, through either fraudulent submissions or illegal gratuities, warrants special scrutiny of that applicant's ANDAs. This may result in more stringent requirements, and a lengthier review period, before the agency can conclude that the applicant has submitted data on which we can rely to determine that the applicant's product meets the requirements of the Act.

FARM CREDIT ADMINISTRATION

STATEMENT OF HAROLD B. STEELE, CHAIRMAN AND CHIEF EXECUTIVE OFFICER

ACCOMPANIED BY MARVIN DUNCAN, BOARD MEMBER

INTRODUCTION OF WITNESS

Senator **Burdick**. We will now hear from the Farm Credit Administration and the Farm Credit System Assistance Board.

From FCA we will hear from Mr. Harold Steele, Chairman and Chief Executive Officer; and Mr. Marvin Duncan, member of the board; the third board member position is currently vacant. Representing the Farm Credit System Assistance Board is Mr. Eric Thor, President and Chief Executive Officer.

The FCA requests an increase in its limitation of $5,428,000 from $36 million to $42 million, an increase of 15 percent.

The Farm Credit System Assistance Board requests a budget of $2,184,000, slightly lower than the limitation, of $2,206,000 for 1990.

We have your statements, Mr. Steele and Mr. Thor. They will be made a part of the record in full. I would ask you to summarize them at this point and make any additional comments you would like to make.

Mr. Steele.

SUMMARY STATEMENT

Mr. **Steele**. Thank you, Mr. Chairman, members of the committee. I am Harold B. Steele, and with me is Marvin Duncan, member of the board.

I would like to briefly summarize our statement. I am a farmer and have been a farmer all of my life. During my experience in agriculture, I have personally used the Farm Credit System.

During that period of time, the system performed very well for me. It was, in fact, a quality organization through many years. As I approached my current position I looked at the Farm Credit Administration's budget, as I look at budgets through the eyes of a farmer.

At the beginning of the year, the budget is locked into position, and you live with the budget. When I arrived at the Farm Credit Administration, I realized that we were having difficulty retaining the key people in our organization, namely, the examination team, for we discovered across the Nation other regulators had adjusted the salaries and related expenses to their examiners. Consequently, we were losing our examination people to other regulators.

So one of the first things done was to adjust our salaries 3 percent across the board over the General Schedule and also establish area differentials. By the way, salary related expenses and travel amounted to more than 85 percent of the fiscal year 1990 budget for the Farm Credit Administration, leaving us less than 15 percent in the remaining parts of the budget to find ways of cutting back.

We have taken some very drastic measures in cutting back expenditures to live within the 1990 budget. We have frozen positions even though we are 10 percent under our authorized personnel ceiling.

We have curtailed training. We have cut back on publications and journals and library services. We will not have a summer program for interns this year, which would be college students and other people.

These were important programs that were cut back or eliminated for the current year. We have done this to live within the budget recognizing that we must still carry out our assignment for ensuring that the regulations and the laws are upheld. We realize that the Farm Credit Administration is vital in ensuring the Farm Credit System is operating on a safe and sound basis.

We are now a little over 3½ years old as an agency under current design. It is unfortunate this design for the agency was not in place many years ago. The current design puts us in a better position to help protect the owner borrowers and the investors of the system, as well as the Federal Government and the taxpayers.

The 1991 budget request is, Mr. Chairman, as you have outlined. Its purpose is simply but emphatically to permit us as an agency to continue to carry out our assignment. More than 85 percent of the increase is in salaries, related expenses and travel, leaving us with a budget of minimum level as we proceed to increase our training, enhance the capability of the examination force and carry out our assignment.

We look forward to the approval of the new budget for the essential purposes it outlines.

PREPARED STATEMENT

Thank you, Mr. Chairman, and members of the committee. We stand ready to respond to your questions.

[The statement follows:]

Statement of Harold B. Steele

Mr. Chairman and members of the Subcommittee, I am Harold B. Steele, Chairman and Chief Executive Officer of the Farm Credit Administration (FCA). With me is Marvin R. Duncan, a second member of the Farm Credit Administration Board. I am pleased to appear before you to discuss the role and responsibility of the FCA and the costs associated with the agency's regulatory mission.

The management of the FCA is vested in the Farm Credit Administration Board, whose three members are appointed by the President subject to confirmation by the U.S. Senate. The Board has operated with a quorum of two members since I assumed my present position on October 12, 1989. A third member has yet to be appointed.

The FCA is responsible for promoting the safety and soundness of Farm Credit System (FCS) institutions as they carry out their mission under the Farm Credit Act of 1971, as amended. Their mission is to provide credit and related services to farmers, ranchers, and their cooperatives. The FCA promulgates regulations and conducts evaluations of FCS institutions for compliance with applicable laws, regulations, and safe and sound banking practices. If an examination or other evaluation conducted by the FCA reveals that an institution is in violation of Federal law and/or regulations or is being operated in an unsafe or unsound manner, the agency undertakes one of several enforcement options at its disposal by which it effects corrective action. The FCA maintains a vigorous regulatory and examination program to ensure that the conditions preceding the recently implemented financial assistance do not recur.

I am here today to present the budget of the Farm Credit Administration for the fiscal year 1991. As one who has farmed for 42 years, I am fully aware that every dollar the FCA's budget represents must ultimately come from those who borrow from the institutions of the Farm Credit System, primarily American farmers, ranchers, and their cooperatives. And as Chairman and Chief Executive Officer of the Farm Credit Administration, I am equally aware that the prudent and wise expenditure of those dollars helps ensure that the institutions of the Farm Credit System operate in accordance with law, regulations, and safe and sound banking practices. Those expenditures also help ensure that the borrower-stockholders of FCS institutions and those who invest in the securities sold to raise loan funds are protected against loss.

Investors in Farm Credit Bank bonds are willing to accept lower rates if they perceive those bonds are sound investments. And lower bond rates translate into lower interest rates for borrowers. Investor perceptions are affected by bond ratings. For example, last October, Moody's Investors Service gave Farm Credit Bank bonds a triple A rating. In so doing, Moody's had the following comment about the Farm Credit Administration. "The focus of the FCA is ensuring the safety and soundness of the FCS, which it has pursued with vigor since the various statutes affecting the FCA were changed in 1985. In the past few years, the FCA has worked hard to expand and train its supervisory force, and to improve its examination procedures. This strengthened supervision of the FCS enhances FCS debtholder protection."

Does a favorable rating result in lower bond rates? To answer that question in part, on January 24, 1990, the Farm Credit Banks priced three bond issues. A 3-month issue totaling $1.35 billion was priced at 8.05 percent. A 6-month issue totaling $1.15 billion went for 8.125 percent. And a 12-month issue totaling $645 million carried a rate of 8.20 percent. The 3- and 6-month bonds were 10 basis points over comparable U.S. Treasury issues, and the 12-month bonds were 2 basis points over comparable Treasuries. That tells me that investors consider Farm Credit Bank bonds very close to comparable Treasuries even though they do not carry the full faith and credit guarantee of the United States.

I do not know exactly what a triple A rating is worth. But if it resulted in bond costs being lowered just 20 basis points (two-tenths of one percent), the Farm Credit System would have realized an annualized savings of $6 million on those three issues alone. The annualized savings on the $14.0 billion in bonds sold since September 26, 1989, would have been $28 million.

The Moody's report is correct in its assertion that the FCA has focused on ensuring the safety and soundness of Farm Credit institutions and that we have pursued that responsibility with vigor. On December 31, 1989, there were 287 Farm Credit institutions, not including 11 in liquidation. During that year, 72 of those institutions, with total assets of $44.8 billion, were operating under FCA enforcement documents.

To the credit of the boards of directors of these institutions, most of the enforcement documents were "consent" documents. That means that the boards agreed with the FCA's determination that operating deficiencies exist and are willing to take the steps necessary to correct those deficiencies.

Mr. Chairman, an important part of both our examination and enforcement activities is to offer boards and management of distressed institutions the tools necessary to rebuild those institutions. The Reports of Examination point out deficiencies, and enforcement documents set forth formal steps that need to be taken to correct those deficiencies. For those institutions that are healthy, our examination reports provide the boards with independent evaluations of capital adequacy, asset quality, management capability, earnings, and liquidity of their institutions.

Because the loan volume of the Farm Credit System has declined substantially in recent years and the number of institutions has also declined, it would outwardly appear that the FCA's work load should have decreased and its cost of operations should diminish accordingly. But the added responsibilities placed on the FCA as a result of enactment of the Farm Credit Amendments Act of 1985 and the Agricultural Credit Act of 1987 have precluded either from happening. On the contrary, those added responsibilities have caused a chain reaction from the recruitment and training of additional examiners to the redesigning of virtually every component of the agency's administrative support structure, e.g., data processing, telecommunications, budget and accounting, consolidated reporting, etc. Though we fully expect efficiencies to result in the long term, initial costs have to be borne as they are incurred.

There are several specific reasons why the decline in loan volume and in the fewer number of institutions have not translated to a directly proportional reduction in expenses.

Institutions resulting from mergers are larger and more complex than their separate constituent institutions. Though these institutions may require somewhat less onsite examination time, the decline in the work load is not directly proportional to the decline in the number of institutions. If two associations merge, for example, onsite examination time may be decreased but because the resulting association is larger it is not cut in half.

We are making efforts to economize by substituting some monitoring and evaluation activities for part of our onsite examination work. Those efforts have had significant development costs. The results in reduced examination costs, however, should be realized over the long term.

A significant number of charter changes (mostly mergers, including the creation of 40 Agricultural Credit Associations) and major new areas of regulation development had to be undertaken. These activities, which are expected to continue, have required major amounts of staff time.

FCA examinations conducted prior to 1985 concentrated almost exclusively on assessing credit quality and depended, in part, on credit reviews of associations conducted by the banks. The FCA now must examine every direct lending institution of the FCS at least once each year and conducts more full-scope examinations, examining such areas as capital adequacy, asset quality, management capability, earnings, and liquidity more vigorously.

Regulation of the institutions has become more complex as a result of changes in the statutes and increased management sophistication. Examinations of capital adequacy and borrower rights are now required because of legislative changes. More sophisticated techniques on the part of managements in loan pricing, funding, and investment management have also increased the examination work load.

The creation of Agricultural Credit Associations and Federal Land Credit Associations as direct local lenders has increased the complexity of association examinations. The creation of these new associations has also resulted in the creation of new risks because managements are taking on the broader range of functions and powers related to having long-term real estate loans on their books rather than merely acting as agents for the banks.

The creation of the Federal Agricultural Mortgage Corporation and the Farm Credit System Insurance Corporation has resulted in a greater work load, one that will increase as these two entities become fully operational.

And those 72 institutions operating under enforcement documents require more frequent monitoring to ensure compliance with the requirements contained in those documents.

As I indicated earlier, the problems of FCS institutions of the 1980's have resulted in increased responsibilities for the FCA as mandated by the Congress. Those problems have also resulted in the need for financial assistance through the issuance of Government-guaranteed bonds. The estimated cost of that financial assistance to FCS institutions will add 27 basis points to the interest cost FCS borrowers must pay over the next 15 years. By comparison, the fiscal year 1991 FCA budget is only about 8 basis points of borrowers' interest costs. I submit that is a small price to pay for the kind of regulatory and examination activity envisioned by the Congress to ensure the safety and soundness of FCS institutions and prevent those problems from recurring.

In both the 1985 and 1987 legislation, the Congress was emphatic in its judicious underlining of the FCA's responsibility for ensuring the safety and soundness of the institutions under its jurisdiction by requiring the direct annual examination of all direct lending institutions. Since enactment of the 1987 statute, 40 Agricultural Credit Associations and two Federal Land Credit Associations have been created, resulting in the downloading of long-term farm real estate loans from the banks to the associations. More such actions are in process, as are the reversals of some association mergers. When these activities are concluded, there will be more direct lending associations.

To carry out its mission of ensuring compliance with the law, regulations, and safe and sound banking practices, the Farm Credit Administration needs highly qualified, professionally competent, and properly motivated people. And the FCA is an organization of people. More than 85 percent of the current budget goes for salaries, personnel benefits, and travel. The agency's recruitment and examiner training program has proven to be exceedingly successful as shown by the quality and thoroughness of the examination process and the results that process has achieved. Most new examiners are recent college graduates. They are usually hired at the entry level and progress through the ranks as they undergo a 3- to 4-year formal and on-the-job training program culminating in a 4-day oral and written examination. Those who successfully complete this rigorous program become commissioned FCA examiners. The agency also requires highly skilled technical staff to develop regulations, carry out approvals required by law, charter institutions, impose and monitor enforcement actions, and provide legal, accounting, economic, financial, and other skills to these efforts.

As I indicated earlier, I entered into this responsibility just over four months ago. During that time, I have had the opportunity to observe and evaluate the agency's planning processes. I have been both pleased and uplifted by the positive aspects of those processes. I judge the specifics identified in the budget documents previously submitted to this committee to be essential steps if the agency is to carry out its mission in accordance with the law. I have also been impressed by a number of internal studies that were in process upon my arrival, most of which have been since completed. They address important areas of strategic planning and will be the underpinning of the agency's reaching its goals and attaining its objectives in a timely and efficient manner.

These internal studies identified 27 issues and subissues related to examination and enforcement activities. The 10 to which we gave the highest priority were summarized in the budget documents previously provided to this committee. Addressing these issues is essential to the successful mission of the agency. The agency is seeking to be more proactive in anticipating, preventing, and averting problems, both in individual institutions and in the FCS as a whole. Our financial analysis and projections functions stand alongside monitoring and onsite examinations as keys to a more efficient and effective FCA.

The Farm Credit Administration looks upon its assignment as a vital link in the chain that will drive the Farm Credit System forward and reestablish the entire entity as one that can provide credit services to American farmers, ranchers, and cooperatives in a professional, competitive, and service-oriented manner. We pledge to dedicate ourselves as analysts, examiners, and enforcers to providing boards of directors with rules and regulations, evaluations, and, when necessary, enforcement documents that will help them in directing the kinds of institutions that provide the credit services borrowers deserve in a safe and sound manner. Achieving these goals is as important to me as a farmer as it is to me as Chairman of the FCA.

In both capacities, I recognize the importance of well-trained professional people. Earlier I mentioned the recruitment and training of FCA examiners and technical specialists. To protect the investment we have made in these people, as well as other staff, we granted a modest 3-percent salary increase and area cost-of-living differential to four FCA office locations on January 5, 1990. We felt these were necessary as initial steps toward attaining pay and benefits comparability with other Federal financial regulators.

In a determined effort to stay within the current fiscal year 1990 budget, however, we also: instituted a hiring freeze for the remainder of fiscal year 1990, though staffing is at the lowest level in three years; reduced training by 16 percent, including reductions in all management and supervisory training; deferred 29 percent of planned purchases of computer hardware and 23 percent of software; and cancelled 23 percent of all professional book orders and publication subscriptions.

But we know these actions must be temporary if we are to successfully fulfill our assignment as an effective Federal regulator of financial institutions as set forth in the Farm Credit Act of 1971, as amended.

Mr. Chairman, I have indicated once or twice in this testimony that I wear two hats—one as a Federal regulator and the other as a farmer. But I want to hang those hats on the same rack, one that is located in a topnotch Farm Credit office.

I will be pleased to answer any questions on the fiscal year 1991 budget of the Farm Credit Administration.

Farm Credit Administration—Administrative expenses

	Amount
Fiscal year 1990 budget (approved)	$36,120,000
Increases/decreases by object class:	
Personnel compensation and benefits:	
Annualization and continuation of effort to achieve pay comparability with financial regulators and return to adequate staffing levels	3,521,000
Benefits cost increases reflect the continuing impact of FERS, the increase in FICA taxes, and rising health insurance costs	743,000

Farm Credit Administration—Administrative expenses—Continued

	Amount
Travel and transportation of persons: FCA examiners, representing about 55 percent of the workforce, travel nearly 70 percent of their time. Increased cost reflects inflation of airline rates, increased Government per diem which reflects inflation, and includes travel related to Commissioned Examiner training and testing	605,000
Transportation of things: Modest increase reflects the inflation of costs of transportation services including applicable charges in this category for employee relocation	5,000
Communications utilities, and other rents: Increased costs of communications including telephone and postage expenses	128,000
Printing and reproduction: Increased costs in printing associated with the issuance of regulations, examination reports, and other bank and association data	24,000
Other services: Primarily an increase in the cost of computer services related to the enhanced capacity for automatic data processing and the network for handling bank and association financial data	303,000
Supplies and materials: Efficiencies and savings in administrative materials and expenses	−26,000
Equipment: Cost of hardware purchases and leases to upgrade ADP capacity and operations and continue the replacement of mature equipment	125,000
Fiscal year 1991 budget request	41,548,000

FARM CREDIT INSURANCE FUND

On December 31, 1968, the Farm Credit Banks retired the Federal Government's investment in the Farm Credit System. The proceeds from this action were deposited into two funds: the Short-Term Credit Investment Fund and the Banks for Cooperatives Fund, which were merged into a single investment fund by the Farm Credit Act of1971. The Agricultural Credit Act of 1987 made these funds available to the Farm Credit Assistance Board (FCAB) to provide assistance to Farm Credit institutions on an interim basis prior to the issuance of obligations Funds so used were paid back into the Revolving Fund from the proceeds of FCAB-issued obligations. In January 1989, this fund in the amount of $259,798,716 was transferred to the Farm Credit Insurance Corporation for use in insuring obligations of System institutions.

FARM CREDIT ADMINISTRATION—ADMINISTRATIVE EXPENSES, OBJECT CLASSIFICATION SCHEDULE

[In thousands of dollars]

Object class	Fiscal year 1990 budget	Change	Fiscal year 1991 estimated
Personnel compensation:			
Full-time permanent	21,974	3,394	25,368
Other than full-time permanent	698	22	720
Other personnel compensation	350	105	455
Special personal services payments			
Total personnel compensation	23,022	3,521	26,543
Personnel benefits: Civilian	5,322	743	6,075
Benefits for former personnel			
Travel and transportation of persons	3,629	605	4,234
Transportation of things	109	5	114
Communications, utils., and other rent	868	128	996
Printing and reproduction	168	24	192
Other services	1,712	303	2,015
Supplies and materials	649	−26	623
Equipment	631	125	756
Total obligations	36,120	5,428	41,548

FARM CREDIT SYSTEM ASSISTANCE BOARD

STATEMENT OF ERIC P. THOR, PRESIDENT AND CHIEF EXECUTIVE OFFICER

SUMMARY STATEMENT

Senator BURDICK. Mr. Thor.

Mr. THOR. Thank you, very much, Mr. Chairman, distinguished subcommittee members. It is a pleasure to appear before you today to talk about the Assistance Board and the progress we and the Farm Credit System institutions have made to improve agricultural credit for farmers and ranchers throughout the United States in the past 2 years.

The financial assistance mechanism of the Agricultural Credit Act of 1987 is working. Just over 2 years after passage of the act designed to rescue the Farm Credit System from financial disaster, that system is on its way to again becoming a stable, dependable agricultural lender for rural Americans.

Although crippled during the early 1980's, those Farm Credit System institutions which have received assistance through the 1987 act are today making progress toward long term viability.

Working through the assistance process, which all of you put in place, the system, with the help from the Assistance Board, has improved credit services to the over 225,000 farmers and ranchers in 15 States, who produce over one-third of the Nation's agricultural products by volume.

To accomplish this, Mr. Chairman, the Assistance Board and the assisted institutions have to date used under $1 billion, less than one-quarter of the $4 billion authorized by Congress. And while the System Assistance Program is on time and under budget, it is too early to determine how much of that authorization will be ultimately needed.

In addition, the Assistance Board has lowered its administrative budget for fiscal year 1991. As you know, the Assistance Board does not use appropriated funds to support its operations. Farm Credit System Financial Assistance Corporation bonds issued to fund the financial assistance to the system also fund our administrative expenses.

The interest on these bonds is paid jointly by the system and the U.S. Treasury, for which you appropriate funds. Upon maturity the bond principle, along with all interest initially funded by the Treasury, will be repaid by the system entities as provided in the statute.

ASSISTED INSTITUTIONS

To-date the Assistance Board has certified the Farm Credit Banks of Louisville, Omaha, and St. Paul as eligible to receive financial assistance of just over $333 million. In addition, the Assistance Board has provided the Federal Land Bank of Jackson in receivership approximately $45 million in initial financial assistance to enable the bank to retire borrower stock and to avoid default on its debt.

The system has also received approximately $414.2 million as part of the capital preservation agreements made during 1986. The remainder of the total $847 million of FAC bonds outstanding went to fund various other assistance-related items including Assistance Board expenses and borrower stock.

Mr. Chairman, rather than me going through my entire statement, let me quickly summarize a number of areas which I think are important to the committee.

ASSISTANCE REQUESTS AND PROCEDURES

It is important, I think, to appreciate that after we do receive an assistance request, the Assistance Board require the institutions to submit a business plan and, once an institution is assisted, an annual update of that business and recovery plan.

As part of our approval process, we require any modification necessary to promote the continued progress of that institution toward viability and the eventual repayment of the assistance provided. Throughout the year, Mr. Chairman, the Assistance Board monitors the institution's compliance with its approved plan.

During 1989 and continuing in 1990 the Assistance Board is concentrating its resources on monitoring and analyzing the financial progress of a limited number of assisted institutions.

Each month the Assistance Board reviews each certified institution's financial condition and performance against its annual business and recovery plan. Also, the Assistance Board makes regular visits to each certified district to meet with each institution's board and management and the Farm Credit Administration field examiners. We continue to meet with farmers and ranchers throughout the country to solicit their opinions toward the system service and structure. These meetings are vital to our decisionmaking and monitoring process.

The certified institutions' managements and boards have implemented strategies to return their respective institutions to sound banking principles and we applaud this. These institutions are putting new focus toward lowering overhead while improving credit and service to customers and streamlining the credit delivery process in each district.

IMPROVED MANAGEMENT PRACTICES

We have continued to focus the attention of certified institutions on asset and liability management, the process of matching each institution's funding needs to its particular loan portfolio.

System managers are exploring new techniques to avoid the funding mismatch that occurred in the early and mid-1980's. During that period of historically high interest rates, the system sold large amounts of noncallable, high-coupon, long-term bonds at rates in excess of 13 percent. When interest rates fell, the system was unable to compete because its cost of funds remained high.

Great strides have been made in this area as a result of improved management practices. The certified institutions are now better able to deal with interest rate fluctuation. The system currently has approximately $53 billion in debt outstanding at an annual interest cost of about $5 billion.

Because interest costs are these institutions' greatest cash expense, the Assistance Board requires each certified institution to know and understand the impact of sharply rising and falling interest rates. As a result, boards of directors are improving policies limiting their institution's risk in these uncertain environments. Nonetheless much work remains. With interest rates ever-changing, every financial institution must cover the cost of money plus the cost of operations.

BORROWERS RIGHTS

The certified institutions are required to uphold the borrower rights provision of the 1987 act. These provisions directed the Assistance Board to establish the National Special Asset Council to monitor loan restructuring activities in the certified institutions. The Council monitors each certified institution for compliance with certain borrower rights provisions of the law. To date the council has found that the assisted institutions are taking the actions prescribed in the 1987 act.

CONTINUING PROBLEMS

Importantly too, we see that system institutions face some problems which are out of their control. Interest rates, global warming, environmental dangers, cash flow of farmers, or any issue which threatens cash farm income also threatens the Farm Credit System institutions. Land values, while today they continue to climb back from the levels of 1985 and 1986, could fall again in certain parts of the country.

As we monitor the system's vital signs, we are pleased to see a higher net interest income and substantially reduced nonaccrual loans. We remain concerned about the continuing drop in loan volume. This appears to be a national trend as farmers are reluctant to take on new debt.

It is important, Mr. Chairman, to take a hard, analytical look at these indicators, not with excessive optimism but with a clear understanding. The data shows the system made financial progress but remains fragile and still deserves considerable attention. The Assistance Board has asked each certified institution to assess the steps it would take to avoid possible dangers which these issues present.

As we look at our own structure, made up of the Secretaries of Agriculture and Treasury and a producing farmer appointed by the President, we want to point out that this board remains active and in fact directly involved in our daily decisionmaking activities.

The board is currently: the Secretary of Agriculture, Clayton Yeutter, is serving as chairman; Secretary of the Treasury, Nicholas Brady, or his designee, and Mr. William W. Erwin of Indiana.

Because we have stressed cost reduction to every institution requesting assistance, the Assistance Board has been very cognizant of its own internal administrative budget. With this conservative principle in mind, the Assistance Board will reduce its administrative budget for fiscal 1991 to $2.18 million—a 1-percent decrease from the fiscal year 1990 level.

Mr. Chairman, during 1990 the Assistance Board will continue to concentrate on monitoring assisted institutions and improving the agricultural credit situation for the Nation's farmers and ranchers. The Farm Credit System has made great progress during the past 2 years, and we commend them for it.

We remind everyone however that the return to financial viability is not complete, and that it is always subject to possible reversal as a result of another drop in land values, severe weather condition, rapid movement in interest rates or other factors. Much work remains ahead if the Farm Credit System is to be fully restored as a provider of competitive agricultural credit to the Nation's farmers and ranchers.

PREPARED STATEMENT

The Assistance Board will continue to provide financial assistance as necessary to enable system institutions to return to financial health.

Thank you, Mr. Chairman.

[The statement follows:]

STATEMENT OF ERIC P. THOR

Mr. Chairman, distinguished Subcommittee Members, it's a pleasure to appear before you today to talk about the Assistance Board and the progress we and the Farm Credit System institutions have made to improve agricultural credit for farmers and ranchers throughout the United States.

The financial assistance mechanism of the Agricultural Credit Act of 1987 is working. Just over two years after passage of the Act designed to rescue the Farm Credit System from financial disaster, that System is on its way to again becoming a stable, dependable agricultural lender for rural Americans. Although crippled during the early 1980's, those Farm Credit System institutions which have received assistance through the 1987 Act are today making progress toward long-term viability. Working through the assistance process, which all of you put in place, the System, with help from the Assistance Board, has improved credit services to the over 225,000 farmers and ranchers in 15 states who produce over one-third of the nation's agricultural products by volume.

To accomplish this, the Assistance Board and the assisted institutions have to date used under a billion dollars—less than a quarter of the four billion dollars authorized by the Congress. And while the System assistance program is on time and under budget, it is too early to determine how much of that authorization will ultimately be needed.

In addition, the Assistance Board has lowered its administrative budget for fiscal year 1991. As you know, the Assistance Board does not use appropriated funds to support its operations. Farm Credit System Financial Assistance Corporation (FAC) bonds issued to fund the financial assistance to System institutions also fund our administrative expenses. The interest on these bonds is paid jointly by the System and the U.S. Treasury, for which you appropriate funds. Upon maturity, the bond principal, along with all interest initially funded by the Treasury, will be repaid by System entities as provided by the statute.

ASSISTANCE TO FARM CREDIT SYSTEM INSTITUTIONS

To date, the Assistance Board has certified the Farm Credit Banks of Louisville, Omaha, and St. Paul as eligible to receive financial assistance of just over $333 million. In addition, the Assistance Board provided the Federal Land Bank of Jackson in Receivership with approximately $45 million in initial financial assistance to enable the bank to retire borrower stock and avoid default on its debt. The System also received $414.2 million as part of the capital preservation agreements made during 1986. The remainder of the total $847 million of FAC bonds outstanding went to fund various other assistance-related items, including Assistance Board expenses and borrower stock.

The key to these assistance packages is the agreement forged between each applicant institution and the Assistance Board. The agreement implements the Assistance Board's statutory authority to monitor compliance with and require changes in the bank's business and recovery plan. This plan is the basic requirement of any assistance application. Before the Assistance Board authorizes any financial assistance, an applicant bank must develop and present a realistic, well-thought-out plan for recovery. We view the development of such a plan as an indicator of the ability of the bank's board and management to assess its financial problems, know the measures needed to correct them, and implement the plan once adopted.

After a Farm Credit System institution has been certified for assistance, the Assistance Board requires the institution to submit an annual update of its business and recovery plan. As part of our approval process, we can require any modification necessary to ensure the continued progress of the institution toward viability and the eventual repayment of the assistance provided. Throughout the year, the Assistance Board monitors the institution's compliance with its approved plan.

ASSISTANCE BOARD MONITORING AND CERTIFIED INSTITUTION PROGRESS

During 1989, and continuing into 1990, the Assistance Board is concentrating its resources on monitoring and analyzing the financial progress of assisted institutions. Each month, the Assistance Board reviews each certified institution's financial condition and performance against its annual business and recovery plan. Also, the Assistance Board makes regular visits to each certified district to meet with each institution's board and management, and Farm Credit Administration field examiners. We continue to meet with farmers and ranchers throughout the country to solicit their opinions toward the System's service and structure. These meetings are vital to our decision making and monitoring processes.

Certified institutions' management and boards have implemented strategies to return their respective institutions to sound banking principles. The institutions have focused new attention on lowering overhead while improving service to customers and streamlining the credit delivery system in each district. These steps, along with a restructuring of the institutions' liabilities and an improving interest rate environment during the last half of 1989, lowered the final cost of credit to the farmers and ranchers during the year. This return to banking fundamentals paid off in 1989, as all three of the certified institutions outperformed their respective business and recovery plans in most major categories.

Certified institutions placed additional emphasis on asset and liability management, the process of matching each institution's funding needs to its particular loan portfolio. System managers are exploring new techniques to avoid the funding mismatch that occurred in the early and mid-1980s. During the period of historically high interest rates in the early 1980s, the System sold large amounts of noncallable, high-coupon, long-term bonds at rates in excess of thirteen percent. When interest rates fell, the System was unable to compete because its cost of funds remained high.

Great strides have been made in the System's asset/liability management practices. The certified institutions are now better prepared to deal with the fluctuations of a volatile interest rate environment. The System has approximately $53 billion in debt outstanding at an annual interest cost of about $5 billion. Because interest costs are these institutions' greatest cash expenses, the Assistance Board requires each certified institution to know and understand the impact of sharply rising or falling interest rates. As a result, boards of directors are improving policies limiting their institution's risk in these environments. Nevertheless, much work remains. With interest rates ever changing, every financial institution must cover the cost of money plus the costs of operation.

Further evidence of the certified institutions' progress toward viability is their success in reducing their nonearning assets. In 1987 the St. Paul, Louisville, and Omaha banks, in total, had $1.8 billion of nonaccrual loans and $358.3 million of acquired property, for a total of approximately $2.2 billion of nonearning assets. By the end of 1989, the three banks had reduced these nonearning assets to a combined total of $680 million, a reduction of 69 percent. Each bank is predicting further reductions in this category for 1990.

While year-end combined net income for all System institutions was down to $695 million from last year's $704 million, the quality of earnings is much improved. In 1988, the $704 million figure was inflated by $680 million in loan loss reversals, while only $285 million in loan loss reversals are included in the same period this year. The income quality is also evident in the rise of net interest income. Net interest income was $1.006 billion during 1989 compared to $219 million last year.

Progress has also been made in the three states formerly served by the Federal Land Bank of Jackson, now in receivership. Since the FCA placed the Jackson Bank into receivership, farmers in the area have regained access to a source of stable long-term lending at substantially lower rates than were available prior to the receivership. The FCA has recently chartered six new Federal Land Bank Associations, two each in Alabama, Mississippi, and Louisiana to serve the area's real estate lending needs. Progress toward resolving the receivership continues. We are aware that an agreement in principle to dispose of the receivership's remaining assets has been reached between the FCA and System representatives. We are urging both parties to quickly resolve the matter.

As we mentioned last year we are ever mindful that the investment community is watching the Farm Credit System recovery process. On average, increased investor confidence in the System has further narrowed spreads approximately 10 to 20 basis points from last year. The System's total debt of approximately $53 billion should benefit from these narrowed spreads, saving the System and the U.S. taxpayer hundreds of millions over the next several years. We continue to monitor investor interest in Farm Credit System securities.

Each certified institution has met the interim regulatory capital adequacy standards and is making progress toward permanent regulatory capital adequacy standards. In addition, all certified banks have a mechanism in place to set aside earnings to repay the financial assistance received.

Certified institutions are required to uphold the borrower rights provisions of the 1987 Act. Those provisions directed the Assistance Board to establish the National Special Asset Council to monitor loan restructuring activity in the certified institutions. The Council monitors each certified institution to ensure that the institutions comply with the borrower rights provisions of the law. To date, the Council has found that the assisted institutions are taking the actions prescribed by the 1987 Act.

Though the majority of the certified institutions' financial indicators show great improvement, concerns remain. Generally, operating expense in relation to loan volume in System institutions remains high. The era of high expenses and lax cost controls in deregulated financial institutions is over. To compete, many financial institutions must now survive on 50 to 75 basis point margins. Customers today will switch institutions for 100 basis points or less. The Farm Credit System lost over $35 billion in assets from 1984 to 1988 in large measure because many good farmers—over 100,000 borrowers—walked out.

Nonearning assets, while substantially reduced, remain high in comparison with commercial banks and other financial institutions. Capital levels within the certified institutions are not yet rebuilt to a solid level, although steps are being taken to do so. Accrual loan volume in the certified institutions, and the System as a whole, continues to fall short of projections. In 1985, the total combined accrual loan volume of the three now certified banks was approximately $19 billion. At the end of 1988, accrual loan volume in these institutions had fallen to $12 billion. We are encouraged to note that, by the end of 1989, accrual loan volume in the certified institutions had stabilized at just over $12 billion. The rest of the System's accrual loan volume followed a similar pattern. In 1985, the System's total accrual loan volume was $64.7 billion. The total fell to $48 billion in 1988 and remained stable during 1989. During 1990, all of the certified institutions will focus on solving these remaining problems.

The System's institutions also face some problems which are out of their control. Interest rates, food safety, global warming, environmental dangers, cash flow of farmers, or any issue which threatens cash farm income also threatens the Farm Credit System. Land values, while today they continue their climb back from the levels of 1985 and 1986, could again fall.

As we monitor the System's "vital signs" this year, we are pleased to see higher net interest income and substantially reduced nonaccrual loans. We are concerned about the continuing drop in loan volume. This appears to be a national trend as farmers are reluctant to take on new debt.

It is important to take a hard, analytical look at these indicators, not with excessive optimism, but with clear understanding. The data shows that the System made financial progress, but it remains fragile and still deserves considerable attention. The Assistance Board has asked each certified institution to assess the steps it would take to avoid the possible dangers which these issues present.

ASSISTANCE BOARD STRUCTURE

It is the Assistance Board's task to help ensure that the assisted institutions continue the progress of the past year. To accomplish this, we have a small staff which carries out the monitoring and assistance functions prescribed by our Board of Directors. As set forth in the 1987 Act, our Board of Directors consists of the Secretaries of Agriculture and the Treasury and a producing farmer nominated by the President and confirmed by the Senate. Currently serving are Secretary of Agriculture Clayton Yeutter, who serves as chairman, Secretary of the Treasury Nicholas Brady, or his designee, and William W. Erwin of Indiana.

Because we have stressed cost reduction to every institution requesting assistance, the Assistance Board has been very cognizant of its own internal administrative budget. With this conservative principle in mind, the Assistance Board will reduce its administrative budget for fiscal year 1991 to $2.184 million, a one percent decrease from the fiscal year 1990 level.

FINANCIAL ASSISTANCE CORPORATION

As I mentioned before, the Assistance Board does not use appropriated funds to support its operation. Instead, as I described, we depend upon the proceeds of FAC bond sales to fund the financial assistance. With the timely payment of principal and interest guaranteed by the Secretary of the Treasury, FAC bonds enjoy significantly lower rates than non-U.S. Government-backed bonds. FAC bonds have a 15-year maturity and pay interest semiannually.

Interest payments on FAC bonds used to fund assistance packages and System borrower stock are made solely by the Treasury for the first five years. For the second five years, interest is split nominally by the Treasury and the System. The remainder of interest and, upon maturity, the principal is also funded by the System. In addition, all interest initially funded by the Treasury will be repaid by the System.

Some FAC bonds were sold to fund other types of assistance authorized as part of the old System capital preservation agreements. All interest and principal payments on these bonds are made by the System. I have attached a table showing the amount, uses, and repayment structure of FAC bonds already sold.

OUTLOOK FOR 1990

Mr. Chairman, in the coming year, the Assistance Board will continue to concentrate on monitoring assisted institutions and improving the agricultural credit situation for the nation's farmers and ranchers. The Farm Credit System has made great progress during the past two years and we commend them for it. We remind everyone, however, that the return to financial viability is not complete and is always subject to possible reversal as a result of another drop in land values, severe weather conditions, or other factors. Much work remains ahead if the System is to be fully restored as a provider of competitive agricultural credit to the nation's farmers and ranchers. The Assistance Board will continue to provide financial assistance as necessary to enable System institutions to return to financial health.

Thank you Mr. Chairman. I will be happy to respond to any questions you or your fellow subcommittee members may have.

FINANCIAL ASSISTANCE CORPORATION EXPENDITURES AS OF JANUARY 31, 1989

Use of proceeds	Amount	Payment of interest	Repayment of principal
Third quarter 1986 capital preservation cash outs for Louisville, Omaha, St. Paul, Jackson, St. Louis, and Wichita.	$414,186,433	System banks	System banks.
Provide financial assistance	370,552,670	U.S. Treasury and system institutions.	Assisted institutions.
Redeem stock in liquidating institutions	23,953,013	do	System institutions.
Assistance Board expenses	2,919,100	do	Do.
Interest on promissory notes payable	563,498	do	Do.
Discount and concessions on bond sales	6,481,036	do	Do.
Prefunding	28,344,250	U.S. Treasury	Financial Assistance Corporation.
Total FAC bonds issued	847,000,000		

Note: Amounts have been rounded to the nearest dollar. Chart compiled from Financial Assistance Corporation and Assistance Board documents.

STAFF COSTS

Senator **Burdick**. If we would go into the question period.

Does anyone else have a statement? Mr. Duncan, do you have one?

Mr. **Duncan**. Mr. Chairman, Chairman Steele has presented the testimony for the Farm Credit Administration Board. And I will not be presenting separate testimony.

Senator **Burdick**. The Senator from Mississippi.

Senator **Cochran**. Mr. Chairman, I have a couple of quick questions. I want to first thank everybody for being here and being helpful to us as we try to exercise our responsibility for oversight over these activities.

One thing that concerns me is the cost of the staffing of the Farm Credit Administration. I heard Mr. Steele say that only 15 percent of the budget was available for making savings to try to control cost, because the other 85 percent is tied up in salaries and staff costs.

Has anybody undertaken a review to determine whether or not you have too many staff? Glancing at some comparisons, it occurs to me that there is reason for at least raising the question.

There are 8,700 credit unions, and the National Credit Union Administration, which is the regulatory agency, has 900 employees. There are 270 Farm Credit System institutions, and the Farm Credit Administration has 580 employees according to my information. I do not know how many banks there are, or how many examiners are employed by the Comptroller of the Currency, but I would bet you that there are fewer in comparison per institution than there are in the Farm Credit Administration, when compared with Farm Credit System institutions.

Is that a fair way to assess the need for staff? If not, why not?

Mr. **Steele**. Senator Cochran, it is partly a way. I would like to break your question down into two parts. When I first came last October and asked myself what is the ratio between examination team and the support staff and how our examination assignment compares to that of other examiners and regulators.

Since my arrival here we have not had an official outside study made of the ratio. But internally we are looking at it very carefully. One of the differences between the Farm Credit Administration's responsibility as prescribed by the law and regulations states that we must examine each direct lending association and each bank annually.

This is not true with other regulators to our knowledge. During this time we have also had additional assignments. These assignments in the last 3 years were to develop regulations to implement three new sets of amendments to the statute and to train and bring into effect an examination force that heretofore did not exist under the assignment that it currently has.

Further, in most recent months we have seen the advent of the development of the Federal Agricultural Mortgage Corporation and then most recently the responsibility under law to organize the

Farm Credit System Insurance Corporation. All this has taken additional time and additional people to accomplish.

So I just say, Senator, your questions are very well taken. We are sincerely looking at our role and responsibility in depth as we are proceeding in strategic planning, so that we are more efficient and so that we do not have duplication of effort. But we cannot really compare our assignment with other regulatory agencies.

ANNUAL EXAMINATIONS

Senator COCHRAN. Do you foresee a time when it will be possible to modify the regulations or the law that requires the annual examination of each institution?

Mr. STEELE. Senator Cochran, we are pleased that the Farm Credit System is regaining its financial strength. With the delivery system of the Farm Credit System becoming more streamlined to meet modern requirements of agriculture, we could envision a lesser assignment.

We have also put a considerable investment in offsite examination on a trial basis to see if this will meet the requirements of the law and at the same time save some money. But it will take some time before we can really see a savings.

Senator COCHRAN. Thank you.

Mr. DUNCAN. Mr. Chairman, if I may respond to that question as well. For the last couple of years at the agency we have essentially been operating under a hiring freeze or a modified version of a hiring freeze, because we were concerned with the very issue that you have raised.

The figure of 580 staffpersons that you referred to overstates the current employment at the agency by around 50 or 60 people because we are operating at about 10 percent under our authorized strength.

We have been putting a good deal of effort into building computerized data systems in the Farm Credit Administration and in requiring concise, reliable, quarterly statements of condition from the farm credit institutions themselves with the intent that, as we get this information in hand, we will be able to work smarter rather than just harder. Our people will be able to be more effective in carrying out their work, and we expect that we will be able to do it with fewer people.

Senator COCHRAN. Thank you very much. Thank you, Mr. Chairman.

ASSOCIATION AUTONOMY

Senator BURDICK. Your budget justification materials indicate that FCA intends to revise the scope of bank supervision to avoid unwarranted interference with the autonomy of associations.

Please describe this issue further and how it will impact FCA's budget request.

Mr. STEELE. If I understood the question properly it relates to the mergers and the revisions of past structures that have taken place to meet the requirements and the opportunities in the current legislation. And at the same time there have been discussions about reversing mergers that have taken place in the past few years.

This sounds very confusing, but some of the past mergers are now thought to be the wrong approach to take. So consideration is being given to reversing some of the past merger agreements. Associations that become direct lenders are more autonomous than those that are, in effect, agents of the banks.

Theoretically, as we look down the road, the greatest savings would appear to be in gaining efficiencies in the delivery system, which would have an effect upon the Farm Credit Administration and resulting in lower budgets in the future. More direct lending associations, however, would necessitate more examination resources.

Marvin, is there anything you would like to add?

Mr. **DUNCAN**. Mr. Chairman, if I might augment that answer with one or two observations.

In the Farm Credit Act, there have historically been a number of requirements for the Farm Credit Administration to give prior approval to certain business activities of the farm credit institutions and to be involved in various quasi-management roles.

The 1985 Farm Credit Act separated the agency from that responsibility. The 1987 act added further to that separation. And we have eliminated quite a number of regulations that we believe were no longer necessary under the current statute to remove the agency from involvement in the ongoing business management of the institutions themselves.

What we have placed more emphasis on is in conducting a sound examination of the institution, and then holding the farmer board of directors accountable for the safe and sound management of that association. And I can tell you that as we have been building that responsibility and accountability, the farmers and ranchers who serve on bank and association boards are stepping up to those responsibilities very well.

Senator **BURDICK**. As I view this question, you have done well in responding. It seems to me there is a tendency to have less control over the associations and giving them more autonomy. The question is whether that is tightening up the security of the bonds and so forth? Whether you are giving the associations too much autonomy. That is the question.

Mr. **DUNCAN**. Mr. Chairman, we have to strike a prudent balance. And while the Congress, through the acts that it has passed in recent years, clearly envisioned us to be removing ourselves from the day-to-day management of these institutions, the Congress also clearly intended that we be an effective prudent financial regulator of these institutions to ensure the safety and soundness of the at-risk equity investment that farmers and ranchers have in their cooperatives, the soundness of the bonds that these institutions sell to the investment community to raise loan funds and, of course, to protect the interest of the American taxpayers.

And we are making every effort to deliver on that responsibility.

ADMINISTRATIVE EXPENSES

Senator **BURDICK**. Mr. Thor, your statement indicates you intend to reduce expenses by 1 percent during fiscal year 1990–91. Yet according to the budget the estimated total obligations for your agency were $1.67 million in fiscal year 1989, $1.89 million in fiscal year 1990, and a proposed $2.18 million for fiscal year 1991.

According to these figures your budget has increased by 30 percent over 3 years. Would you care to comment on those numbers from the budget and how that squares with your claim of a proposed 1-percent decrease in your budget? Are you not really requesting a 16-percent increase?

Mr. THOR. Mr. Chairman, we were started in 1988 and the rapid increase in the first couple of years has to do very directly with the start up of our organization.

You can look and see that the rapid increase has been in the personnel area, where we started off with zero employees and have gone up to the amount we suggested we would in early 1988.

The amount that you have before you is an actual decrease in the congressional budget limitation. The amount that we spent last year was due to a number of lucky factors, including we ran with a short staff during much of the year. And, we did not use the number of consultants and services that we anticipated in the event a large number of requests were received last year.

So we do firmly believe that this is a decrease we are asking for in our congressional budget limitation. It is the amount that we need to deal with the certified banks we have. Based upon the actual expenses, yes, it is an increase. But it is due to the fact that we were a startup organization dealing with more groups as time has gone on.

Senator BURDICK. Then you agree with these figures? I do not know if you agree with the percentage or not, but the figures we have show an increase of 30 percent over 3 years. Do you expect to see that flatten out?

Mr. THOR. What we need in 1992 and beyond will have to be determined by the events that happen next year.

Senator BURDICK. My question is, do you see that figure tapering off and going down?

Mr. THOR. I do.

ADDITIONAL ASSISTANCE NEEDS

Senator BURDICK. What is your best estimate of additional financial needs by institutions this year and in fiscal 1991?

It is a two-part question. Go ahead answer this one.

Mr. THOR. Mr. Chairman, we do not know the exact amount of assistance farm credit institutions are going to need. There is one other request that the board will have to act upon in the short term.

We have to deal with the statutory requirements at the end of the Assistance Board's life. Therefore, we feel that it is premature at this point to speculate on the total amount necessary.

I did testify here this morning that I do believe that it is under the $4 billion you authorized. But depending upon what happens to any one of these institutions I think it is premature to assume that we are going to have a substantial amount left over.

Senator BURDICK. What is your best estimate of additional financial needs by institutes for this reason? The Spokane District just made a request for assistance. What is the nature of that request, and how will you handle that one?

Mr. THOR. Mr. Chairman, the Spokane Bank has made that public announcement. It has been our policy not to discuss the specific request before the board until such time as the board has made the decision, and we have done that in all other requests. But I will verify that Spokane's request has been received by the board.

Senator BURDICK. How much did they request? Do you know?

Mr. THOR. Again, Mr. Chairman, I would be happy to sit down and talk with you in private.

Senator BURDICK. Could you provide the committee with an up-to-date table similar to the one at the end of your statement?

Mr. THOR. Again, Mr. Chairman, since we do not use appropriated funds, we do not normally deal with the K Book but if you would like to, we could go ahead and do that.

Do I understand the question?

Senator BURDICK. At the end of your statement there is a table. Could you provide us with an update of that, because that was a year ago?

Mr. THOR. Since last year we have not issued any new FAC bonds, so the table is still current. It will be updated as we make additional amounts available.

Senator BURDICK. So in other words this is current?

Mr. THOR. This is current as of today.

Senator BURDICK. The Senator from Iowa.

NEW CHARTERS

Senator GRASSLEY. Thank you very much, Mr. Chairman.

I have some questions on chartering new Farm Credit System associations that are very detailed that I want to submit for written response.

I would like to broach this generally with both you, Mr. Steele, and Mr. Duncan at this time in a very preliminary way.

The board has clear policy statements about issuing new charters to associations affected by mergers authorized in section 411 of the 1987 act. In fact, your November 1988 policy statement says: "Competition among associations can be beneficial to borrowers."

I would like to have you clarify the board's policy or sentiments about competition among associations generally. And that is not just as it relates to section 411 mergers, but generally among farm credit associations.

Mr. STEELE. Well, Senator Grassley, as you know since the outset of the Farm Credit System, dating back to 1916, there have been only a few occasions when the system has been competing against itself in a common area.

It is the position of the board that under certain circumstances there may be some overlap.

Senator GRASSLEY. Well, are you saying that it is not a policy of the board to have competition?

Mr. STEELE. Internal competition is one thing. External competition is another, from commercial banks, insurance companies, and others.

Competition is what has caused this Nation to grow and prosper. And we certainly believe in the competitive spirit.

Senator GRASSLEY. What does the policy statement then: "Competition among associations can be beneficial to the borrower?" Maybe you are saying that the policy statement does not mean what it says then, that, "competition among associations is beneficial to the borrower?"

Mr. DUNCAN. Mr. Chairman, may I take a shot at that question, because I think that that was a policy that was put in place prior to Mr. Steele's joining the board. I was a member of the board at the time the policy was put in place.

Let me set the stage for answering the question with a couple of quick bits of information. First of all, almost from the time PCA's were formed, there have been situations in which there was competition, limited amounts of competition among Farm Credit System institutions.

That was never generalized, however. But let me point out the kind of competition I am speaking of. A number of States had statewide livestock PCA's as well as district PCA's that had otherwise exclusive charters for short-term lending. So among those statewide PCA's and the district PCA's within that State, there was competition.

The most recent of those that has come to popular notice is in California, where there is a California Livestock PCA that has a statewide charter.

With the passage of the 1987 legislation there were opportunities for unlike associations to merge, land bank associations and PCA's. They would sometimes end up having some common territory after the merger with another association. One would have a situation in which a land bank association and a PCA merged, and they then were able to lend across the maturity spectrum of short-term and long-term debt. Their territory might spill over onto another PCA's territory or another land bank association's territory.

In the interest of dealing with what was clearly an inequitable result for the PCA or land bank association that now had to compete against an association able to lend across the maturity spectrum, the Farm Credit Administration Board crafted a rather narrowly defined policy to permit competition within those settings.

One other example of that same situation occurs in New Mexico, where a number of PCA's are in the process of determining whether or not they want to change their discounting relationship from Wichita to Texas. They have clear authority to proceed to do that if they wish under the statute.

If that happens, we could have a possible request to create PCA's that would be in direct competition with those that had moved their discounting relationship to Texas.

The competition issue is one that is not going to go away because of the opportunities for mergers that the 1987 act made possible. Thus far the agency has taken a very narrow approach on that to provide a level playing field for associations that find themselves in competition as a result of mergers among PCA's and land bank associations, but has carefully avoided going beyond that because we want to think through this competition situation nationwide and its implications for the Farm Credit System. Because after all the banks continue to be jointly and severally liable on debt issues that they have joined in selling to the public.

I am aware, for example, that some farmers in Iowa are talking of forming a PCA or an ACA within the State of Iowa which would raise the competition issue.

Senator GRASSLEY. Along that line then let me refer to sections 2.0 and 2.10 of the 1987 act spelling out the opportunity for chartering new PCA's and Federal land bank associations organized by 10 or more farmers. What provisions has the FCA adopted for this type of charter application? And what are the criteria upon which such application would be approved or denied?

Mr. STEELE. I think it would be proper, when we are getting these technical areas that we submit for you in writing our positions. I think that would be much better.

[The information follows:]

The Farm Credit Administration has promulgated regulations for chartering new Federal Land Bank Associations [FLBA's] and Production Credit Associations [PCA's]. The criteria upon which such applications are approved or denied include conformance with the statute and regulations, viability of the proposed association, a business plan that ensures general safety and soundness of the association, and evidence that the issuance of a charter is in the best interests of the prospective stockholders. Six new FLBA's have been chartered since enactment of the Agricultural Credit Act of 1987.

Senator GRASSLEY. But at least an immediate answer is that you do not have a position on that? Or that it is just too technical, you cannot state it now?

Mr. STEELE. At this point, Senator, I think it is fair to say that the board and the agency have not gone beyond the narrowly crafted policy statement that you were referring to earlier.

And as you know, we went through a period of 11 months where the board did not have a quorum and could not create new regulations. That issuance of regulations regarding chartering and the agency's position on competition are clearly issues that the board is going to have to work on. At this point, we have not acted on them.

Senator GRASSLEY. Well, it is obvious from the statute that it is Congress' intent that these applications could be made under certain circumstances. And you have to deal with them.

So whatever answer you have for me, will you be able to answer that? Or do you have to establish a policy before you can answer my letter, or answer in writing?

Mr. STEELE. We will answer you in writing our current positions and possibilities of positions.

Senator GRASSLEY. So it is not real definitive at this time.

Mr. STEELE. We will also include that in our answer to you.

BORROWERS RIGHTS

Senator GRASSLEY. Moving to another issue. You may recall that I wrote to you last December regarding the inability of farm borrowers to see relief in their complaints against the Farm Credit System institutions.

At that time there were conflicting decisions from the eighth and ninth circuit courts of appeal regarding farm borrower's private right of action. Since then the Supreme Court has denied a hearing in the *Harper* case which was in the ninth circuit. And the decision of the *Zajac* case in the eighth circuit has been vacated pending a rehearing.

While there are cases still pending in the fourth and tenth circuit courts, I think that we can accurately say that farmers do not have access to judicial relief against Farm Credit System lenders.

It would seem that administrative remedies should be an alternative to farm borrowers. But the Farm Credit Administration has repeatedly articulated its policy not to intervene in borrower or creditor disputes. My question is pretty straightforward.

What recourse does a farmer have, if his rights under the act have not been upheld by the system's lender?

Mr. STEELE. You are asking that question to a regulator whose responsibility it is to examine each of the banks and each of the institutions and associations that are direct lenders to see if any of the laws or regulations pertaining to borrowers' rights are being violated. If so, the necessary documentation of that examination is placed before that board of directors for corrective procedures and corrective actions.

The borrower through this process will have his rights protected. The lending institution obviously must follow the law. It is our responsibility to see that they are followed, which we do do very diligently. In instances when we may receive a direct complaint or allegation, we immediately refer it to the appropriate examination team for inclusion in the scope of its next examination of the institution involved.

Senator GRASSLEY. Well, when FCA examiners detect noncompliance either with an individual case or with an institution's broader practices and policies, what correction does FCA require of the institution?

Mr. STEELE. Our requirement is placed before the board of directors. It sets policies. It is responsible to carry out the policies to hire the administrator, to in fact, administer those rules and regulations.

We have the power to issue cease and desist orders. We have the power necessary to cause the rules to be abided by through various enforcement actions taken by FCA in accordance with FCA Board action.

The boards of the banks and associations have without fail responded to the direction by FCA to follow the rules and laws.

Senator GRASSLEY. But that does not go as far as requiring correction of individual cases?

Mr. STEELE. Senator Grassley——

Senator GRASSLEY. I mean that is a follow-on question of what I thought your response was. Am I right in saying it does not really go to an individual case?

Mr. STEELE. Yes; it goes to an individual case. If a person reports that his or her rights under the provisions that you have outlined have been violated, our examination team will look at that specific case.

Even if we have not received any report of violation, this process of examination covers the rights of the borrower as part of the annual process of examination.

Senator GRASSLEY. Then let us say you agree that in a specific case problems have occurred. What recourse is available to those borrowers whose rights have been violated by the FCS institutions? And you have come to that conclusion through your examination?

Mr. **Steele**. Well, the rights of borrowers are very specific in the laws adopted by the Congress. So the answer is really in the law and not what the examination proves or the examination verifies.

With that verification if there is a violation, the report is given to that board of directors.

Senator **Grassley**. OK, now what you have just described to me, your oversight policies and what your examiners monitor compliance with borrowers' rights, they only refer to debt restructuring. Is that correct? Debt restructuring as opposed to first right of refusal?

Mr. **Steele**. The debt restructuring is one part of the responsibility. Again, I would be happy to submit to you in writing the whole process. Because I believe that you are concerned with what the borrower might do and what the borrower might not do as it pertains to the borrowers' rights on the one hand and the responsibility the Farm Credit Administration, as oversight and as a regulator and the enforcer of regulations and examination, on the other.

And I am reporting to you from our perspective, what we do do and what we are responsible for, as opposed to what the borrowers' rights might be, which I think is an issue on the other side of the ledger.

Senator **Grassley**. I think you have described that accurately. But I guess it brings me to a question then of what recourse do previous owners have if their rights under the 1987 Ag Credit Act have not been upheld? What recourse?

Mr. **Steele**. Many of these questions require many pages of response for clarity. And I think it would be better that we did respond to your question in this area of borrower rights in writing for the record, so it would be complete.

Senator **Grassley**. Well, I am always willing to accept further clarification in writing and encourage that. But I think with all due respect, I do not think that the current examination and monitoring practices of the Farm Credit System satisfactorily ensure that Farm Credit System borrowers are protected if the lender refused to cooperate.

As I stated in my letter to you—and you referred to that letter—I think farmers' rights would be better protected if the Farm Credit Administration would provide an administrative appeals process to system borrowers who have legitimate complaints against system lenders.

And although your January response to my inquiry essentially disagrees, I would like to tell you—I guess I would like to have you tell me, what the Farm Credit Administration needs to develop and implement an appeal or arbitration mechanism?

This is my, I guess, admonition: That I would like you to develop—you know on appeal—an arbitration mechanism in this area. Because I think you know we went to a lot of work in 1987 to spell out borrowers' rights. And they are there. But we have got these court cases that say you cannot go to court. And I am not sure that I want to promote legislation that brings people to court, but that is where we usually end up, because that is adversarial, it is very expensive, and it is not ideal.

And the eighth and ninth circuits are in dispute. There are a couple of others pending. We hope maybe in the eighth circuit we will get a decision that allows private right of action, but it is not there. So, it surely is reasonable to expect some effort on your part to have a forum for these rights that we gave to the farmers to actually be carried out. Not always to the benefit of the farmer, necessarily, to the benefit of whoever is right: the Farm Credit System or the person making the appeal.

Mr. **Steele**. Senator Grassley, as I detect from some of the comments that you make, it would appear to me that you are saying that you have some thoughts and some visions of what you would like to see occur through the lending institutions as it pertains to the relationship of that lending institution with a borrower or borrowers.

And if you would be so kind, Senator, to submit to me what that program might be, we would very carefully study it and draw from it. We would need to know what kind of obligation would fall upon our shoulders to see what we would have to do to tool up to carry out the responsibility that would be added.

So if you would do that, we would try to respond after we have had an opportunity of looking at the total picture as it pertains to new responsibilities.

Senator **Grassley**. Well, first of all, let me say, I believe that is very fair. And I do not want to discourage you from being more fair. So, go ahead, Mr. Duncan, but let me say that I will do that.

I will come to you with some ideas. And it means not only working with Chuck Grassley. You would also have to work with members of this subcommittee assuming that they agree with me, that we need something in this area. Because it is something that we would probably have to either get from you by administrative action, or if you did not feel inclined to do it, then by legislative action.

But I would surely want—that is what I am looking for —is your cooperation in developing that approach. Why? Not to add anything to what Congress has already done, no more borrowers' rights. I think we have got pretty good legislation. But to see that there is some sort of way of seeing that these borrowers' rights mean something.

And they are not going to mean anything, if there is not some way of adjudicating or through an administrative process quasi-adjudicating some dispute resolution. And I would surely like alternative dispute resolution or something through the administrative process more than I do the courts.

Mr. **Duncan**. If I may, Senator. There is a dilemma that is out there. And that is when a farmer and his lending institution have a dispute. The agency is not in a position to insert itself and make a final decision on that dispute, because the borrower always has the opportunity to pursue court action.

The private right of action issue, however, is one that some district courts have stood in the way of occurring.

Senator **Grassley**. But, Mr. Steele, remember the history of this. There was private right of action in the bill that passed the House. And then we thought in the Senate, we ought to take out because it might create some problems that were not intended, but that there was implied private right of action and all sorts of dialog on the floor of the Senate, you know, backs that up. But obviously the court is following the statute and not our legislative intent, which I suppose is a normal course of action.

We would hope though in this instance that they would not find a statute that clear and would follow the debate in the Congress.

Mr. Chairman, just one last point, and then I will stop.

I guess all I would say in followup is I recall, you know, when I was explaining to farmers in my State both people who love the Farm Credit System and who at that point did not. And let me say that most of the animosity against the Farm Credit System is behind us now.

And there is good opportunity ahead, a good relationship of the last 50 years that was lost in 1983, 1984, 1985, and 1986 is being reestablished. But there are still some sore points out there. But as I remember in 1987 explaining this, you know, we had a Farm Credit Administration that before 1987 was kind of an advocacy for the organization and not a standoff regulator.

And so I remember saying to people what did we plan to do? Did we plan to have an arm's-length regulator who served for the Farm Credit System pretty much like the FDIC and the Office of Comptroller of the Currency serves for banking, you know, to be regulator and see that things are done.

And so I guess what I think from intent—although I know you have to read the law and enforce the law—I am looking for a more active posture by people in your position in this regard.

Then that takes us to a point where we can sit down and talk about maybe what we can do to make the borrowers' rights provisions of the 1987 law really meaningful, not that substantively they are not meaningful. But from the standpoint of, are they going to be enforced and a real benefit to the people that have problems.

You know, procedurally we have to do something, because there really are not much right now without some private right of action.

Mr. Chairman, thank you very much for kindly waiting for me to finish this long dialog.

SUBMITTED QUESTIONS

Senator **Burdick**. This concludes today's hearing. Thank you for your testimony. Additional questions will be submitted for written response. And we ask you to respond within 5 days.

[The following questions were not asked at the hearing, but were submitted to the Board for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR BURDICK

Farmer Mac Assessments

The Farm Credit Act of 1971 requires the FCA to make a determination regarding "the amount of assessments necessary to pay the costs of supervising and examining the Mortgage Corporation . . ." and to "assess and collect . . ." those amounts from the Farm Credit System Mortgage Corporation or Farmer Mac. In our report last year we directed you to fulfill these provisions and to include all costs associated with oversight, supervision, and regulation of Farmer Mac.

Question a. How much of your request for FY 1991 is associated with activities related to Farmer Mac?

Answer. The impact of Farmer Mac in the FY 1991 budget is approximately 3 FTEs. However, the impact ultimately depends on how rapidly Farmer Mac becomes operational, whether the Farm Credit institutions establish an active pooler, how many Farm Credit institutions elect to become originators, and in what volume and how attractive the programs are to farmers. The budget impact could be as low as 3 FTEs to as high as 15 FTEs.

Question b. Why have you not charged Farmer Mac for any of your activities or costs incurred in preparing to regulate that entity as the law requires you to do?

Answer. The Farm Credit Act requires the FCA to assess Farmer Mac ". . . for the costs to the Administration of any regulatory activities conducted under this section, including the costs of any examination." The FCA is currently evaluating the method of allocating its costs to Farm Credit institutions, including Farmer Mac.

Question c. When do you intend to start assessing Farmer Mac?

Answer. The FCA will assess Farmer Mac in FY 1990.

Question d. If your General Counsel has issued an opinion regarding what activities of the agency dealing with Farmer Mac may be assessed to Farmer Mac, please provide it for the record.

Answer. The Office of General Counsel has issued no opinion on this subject to date.

Question e. Have you established accounting systems which will permit the allocation of all costs, including space costs, to the supervision and examination of Farmer Mac to ensure proper assessment?

Answer. The FCA accounting systems are sufficient to properly assess Farmer Mac. Currently, the Office of Examination, the unit most actively involved with Farmer Mac, keeps records of time spent by its staff on each Farm Credit institution. As a part of the assessment study mentioned in our earlier response, FCA is considering whether to require timekeeping of all FCA units or to bill their time as part of overhead. Our accounting system will accommodate either approach.

Farmer Mac

Question a. With regard to the Federal Agricultural Mortgage Corporation, when will the first pool of loans be ready for this market?

Answer. The FCA does not know when Farmer Mac will receive its first application to guarantee a pool. At this point, Farmer Mac has not received any applications from entities interested in becoming certified facilities (poolers).

Question b. What will the first pools consist of; i.e., agricultural real estate loans or rural housing loans?

Answer. In some of its public statements, Farmer Mac has stated a belief that its first pool might be housing loans. However, the question cannot be answered until the first application is received.

Question c. What is the financial status of Farmer Mac? For example, what are Farmer Mac revenues and expenditures to date? Please include consultant costs, salaries of staff, and other costs.

Answer. At December 31, 1989, Farmer Mac had assets of $20.7 million and liabilities of $0.2 million. For the year ended December 31, 1989, its gross income was $2 million and it had a net loss of ($1.1) million. The largest expense items were $407,000 for salaries and benefits, $1,581,000 for consulting fees, and $452,000 for directors' fees and meeting expense.

Question d. What is your estimate of total agricultural real estate debt that Farmer Mac will handle during the first year of operation? During subsequent years?

Answer. The FCA has not made estimates of the amount of agricultural debt to be handled by Farmer Mac. At this point, it is not known whether farmers will be receptive to the terms and conditions of the Farmer Mac program or whether any entities will apply to become loan poolers.

Question e. Will the potential competition created by Farmer Mac for farm real estate loans significantly reduce the FCS market share in the farm real estate market and reduce its profitability? If so, what budget implications does this have for the government given the government's commitment to helping FCS return to a more financially sound position.

Answer. The FCA does not believe that Farmer Mac poses any threat to the financial recovery of Farm Credit Banks or associations. Currently, there are too many uncertainties regarding the Farmer Mac program to speculate on its impact on individual institutions.

Space Costs

The justification materials do not cover any discussion of your cost of space. It is my understanding that those costs are paid for by the Farm Credit System Building Association through assessments to System institutions.

Question a. Please detail for the committee the budget of the Building Association for FY 1990 and what the proposed budget will be for FY 1991.

Answer. The FY 1990 and proposed FY 1991 budgets are as follows:

(Attachment A)

Question b. What were the Building Association assessments paid by System institutions in FY 1990 and what is being proposed for FY 1991?

Answer. The Building Association assessment in FY 1990 was $3.3 million and remains the same for FY 1991.

Question c. In your opinion, is the System complying with the borrowers rights provisions of the 87 Act? In general, what are those provisions?

Answer. The borrower rights provisions of the 1987 Act encompass an array of rights designed to ensure fair and equitable treatment of Farm Credit borrowers. These rights include procedures for the restructuring of distressed loans, certain protections to borrowers who meet all loan obligations, processes by which to appeal adverse actions, and a right of first refusal with respect to the sale or lease of acquired properties.

Attachment A

REVENUES	1990	1991
Farm Credit System Assessments	$3,300,000	$3,300,000
Farm Credit Building Tenant Rent	700,000	750,000
Communications Administration (NET) (Building Phone System Administration)	85,000	100,000
Interest (Net)	65,000	75,000
TOTAL REVENUES	$4,150,000	$4,225,000
EXPENDITURES		
Property Management		
Real Estate Tax	$395,000	$413,000
Utilities	250,000	240,000
Insurance	40,000	40,000
Building Services	615,000	625,000
Elevator Maintenance	(8,000)	(8,000)
Extermination	(3,000)	(3,000)
Security Guards	(135,000)	(137,000)
Electronic Security	(30,000)	(30,000)
Grounds/Interior Plant Maint.	(62,000)	(60,000)
Safety System	(25,000)	(25,000)
Engineering	(125,000)	(130,000)
Refuse/Snow Removal	(17,000)	(17,000)
Cleaning	(175,000)	(180,000)
Legal/Administration	(15,000)	(15,000)
Repairs	(20,000)	(20,000)
Management Fees (To Administer Above)	80,000	82,000
SUBTOTALS	$1,380,000	$1,400,000
Building Association		
Contract Services	$190,000	$192,000
Audit and Taxes	(62,000)	(62,000)
Legal Services	(18,000)	(20,000)
Electrical/Mechanical	(50,000)	(50,000)
Phone System	(40,000)	(40,000)
Audio, Files, Rest Room, Computer Room Cleaning & Maintenance	(20,000)	(20,000)
Maintenance Program	170,000	152,000
Equipment/Parts/Installation	(50,000)	(38,000)
Carpet and Installation	(20,000)	(15,000)
Five-Year Paint/Refinish	(50,000)	(46,000)
Normal Maintenance Average	(50,000)	(53,000)
Personnel Compensation & Benefits	145,000	156,000
Community/Business (FCS int., assets, etc.)	5,000	5,000
Training & Travel (10 trips-inventory-training-cabling)	15,000	20,000
Personal Property Tax	90,000	90,000
Supplies/Equipment	25,000	25,000
SUBTOTAL	640,000	640,000
Field Office Expenditures (Leases, furnishings, administration, 11 field offices)	$2,025,000	$2,150,000
TOTAL EXPENDITURES	$4,045,000	$4,190,000

In general, Farm Credit institutions are complying with borrower rights provisions. Although some compliance problems exist, they are usually attributable to procedural weaknesses versus willful neglect. The frequency of compliance problems has diminished considerably since enactment as institutions and borrowers have become more familiar with the complexities of the borrower rights provisions.

Farm Credit System Insurance Corporation

Question a. What is the current staffing of the Farm Credit System Insurance Corporation today and what is the plan for staffing in FY 1991?

Answer. The Farm Credit System Insurance Corporation held its first board meeting on February 27, 1990. The Corporation now has only one officer--Temporary Corporate Secretary and Legal Counsel--on loan from the FCA's Office of General Counsel. In addition, the Chairman of the Insurance Corporation has asked one FCA attorney and one FCA examiner/analyst to review the necessary startup functions and make recommendations concerning future staffing. This review will focus on startup functions since many of the Insurance Corporation's statutory responsibilities do not become active until January 5, 1993. After completion of this review, the Insurance Corporation board will likely make a determination regarding future operations and a staffing plan and budget will be prepared.

Question b. What is the proposed budget for operating the Insurance Corporation in FY 1991 and how will these costs be covered?

Answer. The FY 1991 budget will be prepared following the review noted above and a determination by the Insurance Corporation board regarding future operations. Costs are expected to be minimal, consisting primarily of salaries and benefits. As provided in the Act, it is anticipated that these costs will be covered by the Insurance Fund.

Question c. Please provide for the record office-by-office detail of the number of employees for FY 1990 and what is proposed for same in FY 1991.

Answer. To date, FCA staff has provided support to the Insurance Corporation. Any future staffing for the Insurance Corporation will be determined by the Insurance Corporation board following a review of the necessary startup functions and recommendations from staff concerning future staffing.

1987 Agricultural Credit Act

Question. Is it your view that the 1987 Agricultural Credit Act removed the requirement that Farm Credit Banks supervise the activities of associations?

Answer. The Act authorizes Farm Credit Banks to supervise the activities of associations. However, the nature and extent of this supervisory authority is unclear. In particular, it is noted that the Farm Credit Act Amendments of 1985 granted the Farm Credit Administration enforcement authorities to be used to ensure that banks and associations comply with their obligations under the Act. The Farm Credit Banks, which are not Government agencies, do not have these enforcement powers. In addition, the 1987 Amendments specifically removed from Farm Credit Banks the authority to remove from office any director or officer of an association.

Investment of Excess Funds

Section 5.15(b) of the Farm Credit Act of 1971 authorizes the investment of excess funds of the FCA by the Secretary of Treasury.

Question a. What was earned on these investments in FY 1989? What is projected for FY 1990 and FY 1991?

Answer. Interest earnings in FY 1989 were $540,567. Earnings for FY 1990 and FY 1991 will depend on Treasury rates but are estimated to be $557,000 in FY 1990 and $650,000 in FY 1991.

Salary Adjustments

Question a. Please describe the salary adjustments made recently for FCA employees.

Answer. We increased the FCA salary schedule 3 percent above the General Schedule and instituted the following cost-of-living differentials at 4 of the 12 FCA duty station locations: Albany, NY--5.1 percent; Bloomington, MN--7.1 percent; McLean, VA--9.6 percent; Sacramento, CA--4.5 percent. These actions were taken to address, but do not achieve, comparability with the other financial regulators.

Question b. What has the agency done to work with the other financial regulators to ensure that salary levels of the various agencies do not encourage competition for employees?

Answer. Two working groups made up of the heads of administration and their personnel directors have recently been established to address that and numerous related issues.

QUESTIONS SUBMITTED BY SENATOR GRASSLEY

Chartering New Associations

A. As a follow-up to the questions on chartering new associations:

During consideration of the Agricultural Credit Act of 1987, there was discussion of the option for competition among Farm Credit System institutions. In partial response to this, sections 2.0 and 2.10 of the Act spell out the opportunity for chartering new PCA's and FLBA's organized by ten or more farmers.

Question A1. What provisions has the FCA adopted for this type of charter application and what are the criteria upon which such applications would be approved or denied?

Question A2. If the Board has not adopted such a policy, why not and how soon will it address this issue?

Question A3. Will the Board make this policy, assuming one will be adopted, known to the public or at least to borrowers and stockholders?

Answer. Sections 2.0 and 2.10 of the Act provide the same opportunity for chartering new Production Credit Associations (PCAs) and Federal Land Bank Associations (FLBAs) as was provided prior to the Agricultural Credit Act of 1987. The FCA has promulgated regulations implementing this provision, which provide for the chartering of new associations. When applications are received, they are judged against a standard set of criteria the FCA applies to all charter applications. Criteria include conformance with the statute and regulations, viability of the proposed institution, review of the business plan for general safety and soundness considerations, and review for factors that ensure a charter in the best interest of borrowers.

Almost all corporate restructuring applications to date have resulted from the permissive authorities to transfer direct lending authority to FLBAs, to merge like or unlike associations, to reassign associations to adjoining districts, or to reconsider earlier merger actions. As a result of these provisions under Title VII of the 1987 Act, the FCA made substantial changes in regulations on chartering PCAs and FLBAs as well as the new Federal Land Credit Associations (FLCAs) and Agricultural Credit Associations (ACAs).

We have processed a large number of applications for charters and changes to charters resulting from the whole array of changes in the statute relating to organizational structure. We have, in the process, also faced a number of urgent policy decisions.

Many of the applications resulted from section 411, which required PCAs and FLBAs having "substantially" the same geographic territory to vote on a merger. Where territories were "substantially" the same, but not identical, the resulting merger would cause the merged association to have a territory that included the territory of one or more other associations. To address this matter, the FCA Board prescribed a policy in November 1988 to deal with the portion of the combined territories that overlaps the territory of other associations. The policy gives the affected associations the right to convert to ACAs, in order that they may compete on a "level playing field" if they choose.

Board policy has also addressed the situations that result when an association transfers to an adjoining district under section 433, in which case the territory is then included in the charter of two banks. The policy would enable a new or existing association to serve the territory and obtain loan funds from the bank that was initially chartered to serve that territory. Since passage of the 1987 Act, the agency has not issued any nonexclusive charters except in connection with section 411 mergers.

These policies have been disclosed to all Farm Credit System institutions. It is anticipated that future changes or additions will also be disclosed, whether specific to section 411 or section 433 cases, or broadening of policy to cover other cases. A number of additional issues related to competition have not been resolved, and additional interest from existing associations is evident.

We recognize that, to quote the Senator's words, the 1987 Act provided for the option of restructurings that might bring "a degree of competition" among Farm Credit institutions, a situation which did not exist under prior statute and regulations. The Board has moved carefully, recognizing that the "option for competition" among Farm Credit institutions can assume many forms and many degrees, and a choice among them may require balancing positive and negative implications for the farmers and ranchers that the Farm Credit institutions are intended to serve.

Private Right of Action, Borrower Rights, and Administrative Appeals Process

B. As a follow-up to the issue of private right of action and administrative appeals process:

Question B1. I'd like additional clarification on the matter when FCA examiners detect noncompliance in system institutions with borrower's rights - will FCA ensure that the situation with the borrowers whose cases brought the practice to light be remedied, or does FCA only ensure that the institution changes its practices and policies?

Answer. The FCA's responsibilities are not affected by the right of private action. As an independent regulator, the FCA's charge is to examine for statutory and regulatory compliance with borrower rights provisions and to direct appropriate corrective actions when violations are identified.

The FCA places the responsibility of correcting borrower rights deficiencies on the shoulders of management and the directors who were elected by the very borrowers whose rights they must protect. The FCA directs the board and management to correct any borrower rights deficiencies identified during the examination process. This direction applies to the treatment of individual borrowers as well as correction of the institution's practices and policies.

Most borrower rights violations result from inadequate internal controls or other procedural weaknesses, as opposed to willful noncompliance. Corrective action focuses on specific causes, such as internal controls, so that recurrence of problems may be reduced or eliminated. For that reason, the FCA places emphasis on improving an institution's internal controls and procedures when requiring corrective actions. In most cases, the FCA will require an institution to provide evidence that borrower rights weaknesses—whether procedural or related to individual cases—have been addressed and that steps have been taken to prevent recurrence.

Question B2. Since borrowers' rights only apply to debt restructuring, and not also to previous owners' right of first refusal to repurchase farm land, what action does FCA take if noncompliance with right of first refusal is detected?

Answer. The FCA has a statutory responsibility to examine Farm Credit institutions for compliance with borrower rights provisions of the 1987 Act and applicable regulations, including those pertaining to the right of refusal. When the FCA, through the examination process or other means, identifies noncompliance with these provisions, it is empowered to direct Farm Credit institutions to take necessary corrective actions. When necessary, the FCA may initiate formal enforcement actions to induce management to promptly correct noted deficiencies.

Question B3. As you know, I am very interested in an administrative remedy to borrower/creditor complaints. I would like to work with you in developing a procedure that would be effective in your agency's structure, as well as that would be helpful to borrowers.

Can you provide me an initial indication of additional resources FCA will need to implement an appeals process and how much time would be required before such a process would be available to borrowers?

Answer: The FCA's involvement in an administrative appeals process to remedy borrower/creditor disputes would conflict with the agency's fundamental role as an independent regulator. As previously mentioned, the FCA directs an institution's board and management to correct any borrower rights deficiencies identified in the examination process. Accordingly, the FCA has not initiated a study of resources needed to implement such a process. As of yearend 1989, information provided by Farm Credit institutions shows an inventory of at least 18,000 distressed loans with a volume of $2.3 billion, all of which are potential candidates for an administrative appeals process. The staffing and budgetary requirements of such an exhaustive administrative process would be extensive, and most likely prohibitive.

The FCA's implementation and management of administrative appeals, however, would directly contradict the agency's mandated role as an independent arm's-length regulator. Such involvement would impede the FCA's ability to perform its examination and supervisory duties in a completely objective manner, thus impairing the credibility of FCA efforts. The maintenance of objectivity and credibility is essential to the FCA's role.

The FCA is concerned that its involvement in an administrative appeals process would be tantamount to performing in a management capacity. As an arbitrator of borrower/creditor disputes, the FCA would be faced with reversing or overruling credit decisions made by Farm Credit institution boards and management. Such actions would result in FCA decisions placing at risk the value of institution stock, thus contradicting FCA's charge to protect Farm Credit System stockholders and bondholders.

Beginning with passage of the Farm Credit Amendments Act of 1985, Congress has reduced FCA's involvement in management-related decisions of the Farm Credit institutions, thereby strengthening the agency's position as an independent regulator. This trend is evidenced by mandated reductions in FCA prior approval authorities in areas such as interest rate establishment and institution bylaws.

Question B4. While Congress may or may not adopt legislation specifying that borrowers can sue the Farm Credit System, I am concerned about the excessive costs, both personal and financial, necessarily entailed with judicial review. Regarding litigation expenses and practices of the system, does FCA include in its examinations a review and analysis of litigation expenses incurred by system lenders?

Answer. FCA examinations include an evaluation of all expenses affecting financial performance and condition. Farm Credit institutions do not report the amount of legal fees associated with specific types of litigation, nor are they required to do so. Litigation and legal expenses are examined to the extent that they are a component of, or have an impact on, total operating expenses.

Question B5. Does FCA ever take note of the extent to which FCS institutions involve themselves in litigation, and the extent to which litigation is won by the system?

Answer. The FCA takes note of lawsuits involving important Farm Credit issues, such as borrower rights or private right of action, and keeps track of the outcome of those cases. The FCA does not generally keep track of lawsuits filed by or against institutions in matters concerning their day-to-day business affairs, such as foreclosures, bankruptcies, or contract matters.

SUBCOMMITTEE RECESS

Senator BURDICK. Our next hearing will be held Friday, March 23 in the same room at 10 a.m. The subcommittee will hear testimony from the Animal and Plant Health Inspection Service, the Food Safety Inspection Service, and the Agricultural Marketing Service.

The subcommittee then stands in recess.

[Whereupon, at 12:40 p.m., Wednesday, March 21, the subcommittee was recessed, to reconvene at 10 a.m., Friday, March 23.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1991

FRIDAY, MARCH 23, 1990

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Quentin N. Burdick (chairman) presiding.

Present: Senators Burdick, Bumpers, Cochran, and Grassley.

DEPARTMENT OF AGRICULTURE

STATEMENT OF JO ANN R. SMITH, ASSISTANT SECRETARY OF AGRICULTURE FOR MARKETING AND INSPECTION SERVICES

ACCOMPANIED BY ROBERT E. SHERMAN, BUDGET OFFICER

ANIMAL AND PLANT HEALTH INSPECTION SERVICE

STATEMENT OF DR. JAMES GLOSSER, ADMINISTRATOR

FOOD SAFETY INSPECTION SERVICE

STATEMENT OF DR. LESTER CRAWFORD, ADMINISTRATOR

AGRICULTURAL MARKETING SERVICE

STATEMENT OF DAN HALEY, ADMINISTRATOR

OPENING REMARKS

Senator BURDICK. Good morning. Today we continue our hearings on the fiscal year 1991 budget for Agriculture, Rural Development, and Related Agencies. Today we will review the budgets for the Animal and Plant Health Inspection Service, the Food Safety and Inspection Service, and the Agricultural Marketing Service.

Our witnesses are: Jo Ann Smith, Assistant Secretary for Marketing and Inspection Services; James Glosser, Administrator, Animal and Plant Health Inspection Service; Lester Crawford, Administrator, Food Safety and Inspection Service; Dan Haley, Administrator, Agricultural Marketing Service; Robert E. Sherman, Budget Officer, USDA.

Welcome to you all.

As a broad overview, in comparison to 1990 funding, I note that the budget for APHIS is increased by almost $44 million. The budget for FSIS is increased by $24 million, and the Agricultural Marketing Service budget is up $19 million, or 55 percent.

We have statements from each of the agencies and the Assistant Secretary. They will be made a part of the record in full. Ms. Smith, I will ask you to make your oral statement, after which we will entertain questions from the subcommittee for each of the agencies. So you may proceed.

MARKETING AND INSPECTION PROGRAMS

Ms. SMITH. Thank you, Mr. Chairman. I am pleased to be here today to discuss the marketing and inspection programs of the Department of Agriculture and their fiscal year 1991 budget proposals. As you have introduced the members and our administrators, we will not reintroduce them for the record. Each of them, as you have stated, have prepared statements for the record which will be submitted.

I would like to talk about our budget and program policy themes. The marketing and inspection programs play an important role in assuring plentiful and safe food supply for the American consumer. We administer these programs to create fair and competitive markets that swiftly move high quality commodities from farm gate through the marketing chain to the consumer and to the dinner table.

Our meat and poultry inspectors are literally on the front lines in protecting the public health of consumers. In protecting food safety, we find that myths about tainted food are difficult to dispel. An accident or a crisis that alarms consumers creates a lasting image.

We have established a crisis response system to minimize the damage and to regain consumer trust by communicating accurate information from primary sources in a timely and credible fashion. Our food safety hotline handles 1,200 to 1,500 calls per week.

In 1991 we have proposed a budget that builds on accomplishments. The total program level for the marketing and inspection program is proposed at slightly over $1.1 billion, an increase of $84 million or about 8.4 percent over the 1990 level.

The budget also includes legislative proposals to convert several activities to user fees. These programs provide benefits to specific parties that would result in appropriated savings of about $98 million.

FSIS BUDGET PROPOSALS

I would like to highlight now some of the agency's proposals. As you know, the Food Safety and Inspection Service is responsible for assuring that meat and poultry supply is safe, wholesome, unadulterated, and properly labeled and packaged. We place high priority on introducing hazard analysis and critical control point principles into the inspection operations. The HACCP system will focus on the identification and systematic control of the food safety hazards, both in slaughtering and processing operations.

For fiscal year 1991 we are requesting a total appropriation for FSIS of $440.9 million. This is an increase of approximately $24 million over the amount appropriated for fiscal year 1990. Of the

$24 million increase, $21 million would be used to maintain the current level of Federal-State cost share inspection services.

The additional $3 million is requested to increase the number of slaughter inspectors, which would enable FSIS to keep pace with the rapid growth of meat and poultry production.

AMS BUDGET PROPOSALS

The programs of the Agricultural Marketing Service enhance the marketing and distribution of agricultural products. For fiscal year 1991 we are proposing $201.5 million of program activity, of which $146.8 million will be funded by the user fees. We are requesting $53.2 million in appropriated funds under current law.

The Department's food safety initiative includes $15.8 million for AMS to begin to develop a nationwide pesticide residue monitoring program. We found that the Government simply did not have the information to validate the occurrences of pesticide contamination.

For fiscal year 1991 we are proposing an increase of $1.1 million for increased monitoring and testing of egg products for microbiological and chemical contamination.

The Market News Service provides timely and accurate information to assist producers and marketers in making critical business decisions. To build on recent improvements that have increased the access and speed by which data is disseminated, we are requesting $535,000 to continue development of a computerized communication network.

Many marketing activities provide direct benefits to the private sector and are funded through the user fees. This source of funding should be expanded in those instances where benefits can be tied directly to particular parties. Therefore, we are proposing legislation to convert $13.3 million in appropriated funds to user fees.

APHIS BUDGET PROPOSALS

The Animal and Plant Health Inspection Service is responsible for protecting U.S. agriculture from pests and disease. As we advised Congress, USDA has recently used its statutory authority and transferred from CCC to APHIS $6.8 million for fiscal year 1990 to control the incidence of Salmonella enteritidis infection in the poultry industry and $15 million to eradicate Mediterranean and oriental fruit fly outbreaks in California.

The APHIS budget request for 1991 under current law is $368 million, which is $20.6 million above 1990. The fees to recover $75 million are again being proposed for agricultural quarantine inspection activities for passengers and cargoes, similar to fees already charged by U.S. Customs Service.

Partial fees to recover $1.8 million are also proposed for veterinary diagnostic services provided to States and private entities by APHIS laboratories and to recover $2.2 million of animal import-export activities not currently covered by trust funds. These user fees are part of USDA's farm bill proposals.

I would like to address the concerns raised by the APHIS overhead costs. I believe, as you do, that we need to provide all the services we can at the field level. Agencywide, APHIS spends less than 16 cents on the dollar to finance such things as administration, regional offices, training, equipment, warehousing, and information support.

The perception of the problem related to the allocation of funds in APHIS comes about because of the efforts to centralize functions in order to achieve economies of scale and accuracy in accounting. We intend to increase efficiency, not add new costs.

Under this system we identify costs at the place where they can be most efficiently procured, rather than identify them in the field, as previously done. I will continue to personally evaluate this process.

Due to the screwworm outbreak in Africa, the Department proposed legislation to specifically authorize the sale of sterile screwworm flies to international organizations. We are pleased with the speedy action taken on this bill. The fiscal year 1991 budget requests $33.4 million, an increase of $1.8 million over 1990.

The brucellosis program is proposed for a $2.6 million increase to continue the program at its current level of operations. In 1989, I am proud to say that the number of quarantined herds dropped 40 percent. Eliminating the last vestiges of infection will require a concentrated effort by industry, the States, and the Federal Government.

The three projects in the boll weevil program continue to make progress. The fiscal year 1991 budget proposes a decrease of $3 million from the 1990 level since the temporary increase in the Federal cost of the Southeastern boll weevil program is not expected to continue in 1991.

Biotechnology has emerged as a force with the potential to improve products and spawn new technologies. The budget requests $6.5 million for these scientific and technical services, nearly 40 percent more than 1990. Some of the genetic engineering experiments hold great promise for enhancing pest and disease control programs by substituting for traditional chemical pesticides. The biocontrol program requests $7.3 million, over 30 percent more than in 1990.

An increase of $3.9 million is proposed for the animal disease detection program. This system collects, analyzes, disseminates information on animal health and productivity to increase the understanding of what risk factors are important and how the animal diseases can be managed by farmers, State and local authorities.

An increase of $1.2 million is requested for implementation of the new regulations for animal welfare.

The budget requests an appropriation of $25.4 million for buildings and facilities, including repairs and maintenance. It includes $12 million for the first phase of a National Germplasm Quarantine Center at Beltsville, $5 million for improvements to APHIS facilities at Plum Island at the research center, and $4 million for the Fort Collins Wildlife Center.

Thank you for the opportunity to review the budget for marketing and inspection programs, and I believe it will assure the successful accomplishment of the Department of Agriculture's program goals.

PREPARED STATEMENTS

Mr. Chairman, we are ready to answer any questions that the committee might have regarding these proposals.

[The statements follow:]

STATEMENT OF JO ANN SMITH

Mr. Chairman and members of the Committee, I am pleased to appear before you to discuss the Marketing and Inspection Programs of the U.S. Department of Agriculture and their fiscal year 1991 budget proposals. With me today are Mr. Daniel D. Haley, Administrator of the Agricultural Marketing Service (AMS), Dr. Lester Crawford, Administrator of the Food Safety and Inspection Service (FSIS), and Dr. James Glosser, Administrator of the Animal and Plant Health Inspection Service (APHIS).

These administrators have prepared statements for the record and will answer questions regarding the budget proposals for their specific programs.

BUDGET AND PROGRAM POLICY THEMES

The Marketing and Inspection Programs play an important role in assuring a plentiful and safe food supply for the American consumer. We administer these programs to create fair and competitive markets that swiftly move high quality commodities from the farm gate through the marketing chain to the consumer's dinner table. Our meat and poultry inspectors are literally on the front lines in protecting the public health of consumers. Thousands of plants and animals are inspected at our borders to prevent the introduction and spread of pests and disease. This activity and our other plant pest and animal disease management programs enable more of our farmers' production to reach consumers with minimal use of pesticides and antibiotics. Billions of pounds of eggs, meat, and poultry are inspected to ensure that America has the safest food supply in the world. And, we intend to keep it that way.

Myths about tainted food are difficult to dispel. An accident or crisis that alarms consumers creates a lasting image. We have established a crisis response system to minimize this damage and regain consumer trust by communicating accurate information from primary sources in a timely and credible fashion. Our Food Safety Hotline handles 1,200 to 1,500 calls per week. Information is made available to the Extension Service home economists and media multipliers for dissemination to the public. The Department proposes, for the first time, to estimate statistically reliable pesticide residue exposure in the Nation's diet and for vulnerable groups of the population such as the very young, the poorly educated, and low income people. I am proud to say that our efforts support an agricultural system that provides an abundant source of affordable, high quality, safe, and wholesome food products.

For 1991 we have proposed a budget that builds on our accomplishments. The total program level for the Marketing and Inspection Programs is proposed at slightly over $1.1 billion, an increase of $84 million, or about 8.4 percent, over the 1990 level. Since a number of these programs are financed through user fees and trust funds, the appropriations request is only about $916 million under current law. The budget also includes legislative proposals to convert several additional activities to user fees. These programs provide benefits to specific parties and would result in appropriated savings of about $98 million. I will use the remainder of my time to highlight the Department's budget requests for the Marketing and Inspection area.

FOOD SAFETY AND INSPECTION SERVICE

The Food Safety and Inspection Service (FSIS) is responsible for assuring that the Nation's meat and poultry supply is safe, wholesome, unadulterated and properly labeled and packaged. In fiscal year 1991, FSIS will continue to modernize inspection procedures through the continued introduction of science-based inspection methods.

We place a high priority on introducing Hazard Analysis and Critical Control Point (HACCP) principles into inspection operations. The HACCP system will focus on the identification and systematic control of the food safety hazards in both slaughter and processing operations. The agency has undertaken a two year study to determine the best way to implement a HACCP system. This strategy includes consulting with interest groups, FSIS employee unions, consumer groups, industry associations, and other regulatory agencies. These groups are important to the design and implementation of HACCP principles into FSIS programs.

The HACCP system will continue to take on the challenge posed by microbiological and residue hazards in meat and poultry. In 1989, FSIS condemned 0.3 percent of the beef carcasses, 1.2 percent of birds and 13 million pounds of imported products. About 2.5 million separate analyses for residues and adulterants were conducted on over 500 thousand meat and poultry samples. FSIS has increased the level of monitoring for Listeria monocytogenes in ready-to-eat meat and poultry products. In addition, they have worked with the National Advisory Committee on Microbiological Criteria to develop recommendations on controlling public health hazards.

For fiscal year 1991, we are requesting a total appropriation for FSIS of $440.9 million. This is an increase of approximately $24 million over the amount appropriated for fiscal year 1990. Of the $24 million increase, $21 million would be used to maintain the current level of Federal and State cost-shared inspection services. An additional $3 million is requested to increase the number of slaughter inspectors, which would enable FSIS to keep pace with the rapid growth of meat and poultry production.

AGRICULTURAL MARKETING SERVICE

The programs of the Agricultural Marketing Service (AMS) enhance the marketing and distribution of agricultural products. For fiscal year 1991, we are proposing $201.5 million of program activity of which $146.8 million will be funded by user fees. We are requesting $53.2 million in appropriated funds under current law.

The Department's food safety initiative includes $15.8 million for AMS to develop a nationwide pesticide residue monitoring program. In the past, the Government simply did not have the information to validate the occurrences of pesticide contamination. AMS would administer contracts with high production states to test for pesticide residues on fresh fruits and vegetables. This information will be coordinated with the on-farm pesticide use surveys and the assessment of actual dietary risk. Consequently, this information will contribute to the Government's risk assessment and risk management procedures.

The Egg Products Inspection Act provides authority for a mandatory continuous inspection program for processed egg products. All eggs processed for human consumption must be pasteurized, which eliminates Salmonella, including the enteritidis strain. For fiscal year 1991, we are proposing an increase of $1.1 million for increased monitoring and testing of egg products for microbiological and chemical contamination.

The Market News Service provides timely and accurate information to assist producers and marketers in making critical business decisions. To build on recent improvements that have increased the access and speed by which data is disseminated, we are requesting $535 thousand to continue development of a computerized communications network. These improvements will increase our ability to summarize market data for regional and national reports and will allow non-AMS users to access data for comparative analysis of markets and trends.

In contrast to previous budgets, we are proposing to continue marketing programs that provide assistance to developing markets and promote fair and open competition. These include AMS activities conducted under the Federal Seed Act, Wholesale Market Development Program, and the Payments to States Program.

Many marketing activities provide direct benefits to the private sector and are funded through user fees. This source of funding should be expanded in those instances where benefits can be tied directly to particular parties. Therefore, we are proposing legislation to convert $13.3 million in appropriated funding to user fees. These activities would include AMS costs for the administration of marketing agreements and orders, development of standards and specifications, and the dissemination of tobacco news reports.

ANIMAL AND PLANT HEALTH INSPECTION SERVICE

The Animal and Plant Health Inspection Service is responsible for protecting U.S. agriculture from pests and disease. As we advised the Congress, USDA has recently used its statutory authority and transferred from CCC to APHIS, $6.8 million for fiscal year 1990 to control the incidence of Salmonella enteritidis (SE) infection in the poultry industry and $15.0 million to eradicate the Mediterranean and oriental fruit fly outbreak in California.

The incidence of SE in the poultry industry and the associated outbreaks of human illness are increasing. In developing a protocol for controlling this problem, we have worked with the Centers for Disease Control, FDA, industry, and the States in developing a mandatory testing and certification program. These additional funds have enabled us to implement this program.

The fruit fly outbreak in California presents a serious threat to the fruit and vegetable industry. The additional funds are being used to increase the Department's efforts to eradicate these flies from the over 400 square miles of regulated quarantine area in California.

The APHIS budget request for fiscal year 1991, under current law, is $368 million, which is $20.6 million above fiscal year 1990. The appropriated budget request based on proposed legislation is $289 million, a reduction of $58.4 million from the 1990 level and $79 million below the estimated fiscal year 1991 current law level.

Fees to recover $75 million are again being proposed for agricultural quarantine inspection activities for passengers and cargoes, similar to fees already charged by the U.S. Customs Service. Partial fees to recover $1.8 million are also proposed for veterinary diagnostic services provided to States and private entities by APHIS labs and to recover $2.2 million of animal import-export activities not currently covered by trust funds. These user fees proposals are part of USDA's Farm Bill proposals.

The Screwworm program's goal is to prevent the threat of screwworms from entering the United States by eradicating the pest in Mexico and Central America. Due to the outbreaks in Africa. the Department proposed legislation to specifically authorize the sale of sterile screwworm flies to international organizations. We are pleased with the speedy action taken on the bill. The fiscal year 1991 budget requests $33.4 million, an increase of $1.8 million over 1990.

The brucellosis program is proposed for a $2.6 million increase to continue the program at its current level of operations. This State-Federal cooperative program has been successful in reducing the incidence of disease in the United States. In fiscal year 1989 the number of quarantined herds dropped 40 percent. Eliminating the last vestiges of the infection will require a concerted effort by industry, the States. and the Federal Government.

The three projects in the Boll Weevil Program continue to make progress. Efforts are being made to put the Southeast Boll Weevil Foundation project on a sound financial basis. During fiscal year 1989 the project experienced financial difficulties in part due to increased infestations as a result of a warm winter and frequent rains during the pesticide application season. As a result, an emergency was declared and $6.2 million of CCC funds were advanced to the Foundation to continue operations. The fiscal year 1991 budget proposes a decrease of $3 million from the 1990 level since the temporary increase in the Federal costs of the Southeast boll weevil program is not expected to continue in 1991.

Biotechnology has emerged as a force with the potential to improve products and spawn new technologies. APHIS has issued 38 product licenses to companies for producing genetically engineered veterinary biological products including vaccines and companion diagnostic kits. Since 1987, APHIS has issued 608 permits to universities and private companies regarding importation, interstate movement, and field testing of products being designed through biotechnology. The budget requests $6.5 million for these scientific and technical services, nearly 40 percent more than for 1990. Some of these genetic pest control experiments hold Great promise for enhancing best and disease control programs by substituting for traditional chemical pesticides. The biocontrol program requests $7.3 million, over 30 percent more than for 1990.

An increase of $3.9 million is proposed for the Animal Disease Detection Program to expand the National Animal Health Monitoring System to additional states and a larger percentage of the herds. This system collects, analyzes, and disseminates information on animal health and productivity to increase the understanding of what risk factors are important and how the animal diseases can be managed by farmers and State and local authorities.

An increase of $1.2 million is requested for implementation of the new regulations for animal welfare. Final rules containing the definition and standards on the new requirements became effective October 30, 1989. The parts of the regulations which contains standards for the exercise of dogs and the psychological well-being of primates generated over 21,000 public comments.

The budget requests an appropriation of $25.4 million for the buildings and facilities account, which funds new construction, as well as maintenance and repair of APHIS operated facilities. The increase consists of $12 million for the first phase of the National Germplasm Quarantine Center at Beltsville, $5 million for improvements to the APHIS facilities at the Plum Island Animal Disease Center in New York, $4 million for the Ft. Collins Wildlife Research Center and $4.4 million for general maintenance and repairs.

CONCLUSION

Thank you for this opportunity to review the budget for these Marketing and Inspection Programs. I believe it will assure the successful accomplishment of the Department of Agriculture's program goals.

BIOGRAPHICAL SKETCH

JO ANN SMITH

WASHINGTON, May 18—Jo Ann Smith, a Micanopy, Fla., rancher who was the first woman president of the National Cattlemen's Association, today was sworn in as assistant secretary of agriculture for marketing and inspection services. Her nomination was confirmed by the U.S. Senate yesterday; President Bush nominated her for the post March 23.

After swearing her in, Secretary of Agriculture Clayton Yeutter said, The background and talent which Jo Ann Smith brings to USDA will be vital as we set the stage for the future of American agriculture."

Smith was a partner along with her spouse, Cedrick M. Smith, in Smith Bros. Farming and Ranching and Smith Construction. Prior to her nomination for the USDA post, she chaired the Cattlemen's Beef Promotion and Research Board, responsible for a $75 million annual budget to promote, advertise, research and provide consumer information in the beef industry.

Other recent professional activities include serving as chairman of the Board, Federal Reserve Bank, Jacksonville, Fla.; on the Board of Governors, Committee for Trade Negotiations; on the Florida governor's task force on the future of Florida agriculture; and in advisory posts to the Florida Department of Agriculture and Consumer Services. Smith also serves on the advisory committee for PRIDE for the development of Florida Prison Industries.

The new U.S. Department of Agriculture assistant secretary's wide-ranging community service includes the Board of Overseers of the University of Florida Health Science Center, chairing the Munroe Regional Medical Center Board Trustees, the advisory committee of the University of Florida College of Veterinary Medicine, membership in the Florida Farm Bureau, and serving as president of the Florida 4-H Foundation.

Smith's honors include being named woman of the year in American agriculture in 1988 by Progressive Farmer Magazine; receiving the merit award for distinguished service to agriculture from Gamma Sigma Delta in 1986; and being named woman of the year in Florida agriculture in 1986 by the Florida Department of Agriculture and Consumer Services.

Smith and her husband have two grown children.

STATEMENT OF DR. JAMES W. GLOSSER

Mr. Chairman and members of the Committee, I appreciate the opportunity to present our fiscal year 1991 budget request and to report to you on our continuing efforts to protect American agriculture. I would like to take some time today to report briefly on our Agency Mission, our recent accomplishments, major issues, and future plans.

First, let me introduce some key members of our management team. With me are Mr. Larry B. Slagle, the Associate Administrator; Dr. Lonnie I. King, Deputy Administrator for Veterinary Services; the Acting Deputy Administrators, Mr. Richard R. Backus, for Plant Protection and Quarantine; Mr. Bobby R. Acord, for Animal Damage Control; and Mr. Michael C. Gregoire, Acting Director for the Budget and Accounting Division.

AGENCY MISSION

The mission of the Animal and Plant Health Inspection Service (APHIS) is to protect American agriculture by providing leadership in ensuring the health and care of animals and plants, to improve agricultural productivity and competitiveness—to keep it safe, make it better, cheaper, more efficient, and thus, more economically sound and successful, thereby contributing to our Nation's economy and the public health. APHIS activities fall within five major functional areas: (1) pest and disease exclusion; (2) plant and animal health monitoring; (3) pest and disease management; (4) animal care; and (5) scientific and technical services.

PEST AND DISEASE EXCLUSION

To prevent the introduction of foreign plant and animal pests and diseases which are harmful to our country's agriculture, APHIS carries out inspection and quarantine activities at U.S. ports-of-entry. To ensure that foreign agricultural products destined for the United States do not present a risk to U.S. agriculture, APHIS develops and conducts preclearance programs. Further, APHIS engages in cooperative programs with other countries to control pests of imminent concern to the United States and to strengthen foreign plant protection and quarantine organizations. APHIS certifies plants and plant products for export and regulates imports and exports of designated endangered plant species. APHIS facilitates exports by issuing certification that U.S. exports comply with foreign animal and plant health regulations and by negotiating changes in regulations that are not biologically based.

PLANT AND ANIMAL HEALTH MONITORING

APHIS accomplishes plant and animal health monitoring through two disease detection programs. The purpose of the first, the animal disease detection program, is to protect and monitor the health of the Nation's livestock and maintain the capability to rapidly eliminate outbreaks of foreign animal diseases should they occur. This is accomplished through diagnostic efforts, surveillance of domestic and foreign animal diseases, and by surveys of domestic livestock conditions. An important component of the program is the National Animal Health Monitoring System (NAHMS). This is a cooperative effort of the Federal and State governments and industry producers.

The second, the pest detection program, has two main functions: (1) to quickly discover foreign plant pests to prevent widespread agricultural damage and reduce pest control costs; and (2) to monitor the status of the Nation's endemic plant pests and provide information to support the certification of U.S. agricultural exports. APHIS works in cooperation with the 50 States in a project called Cooperative Agricultural Pest Survey, of which the National Agricultural Pest Information System is a component.

PEST AND DISEASE MANAGEMENT

In cooperation with the States, APHIS conducts programs to prevent, detect, and eradicate pests and diseases which are harmful to agriculture. Interstate shipments of plants, livestock, and related materials are monitored and regulated to prevent the spread of disease. APHIS also protects agriculture from detrimental animal predators through identification, demonstration, and application of the most appropriate control methods.

ANIMAL CARE

Under the Animal Welfare Act, APHIS is responsible for ensuring the humane care and treatment of warm blooded animals used for research, exhibition, or sold wholesale as pets, and ensures the humane care of regulated animals when transported in interstate and intrastate commerce.

APHIS is also responsible for the enforcement of the Horse Protection Act of 1970. The Act prohibits the showing or selling of sored horses.

SCIENTIFIC AND TECHNICAL SERVICES

APHIS develops methods to control animals and pests that are detrimental to agriculture, other wildlife, and public safety. The Agency under its broad authority to protect plant and animal health has established a regulatory structure for bringing the benefits of genetic research to the marketplace, while protecting against the release of potentially harmful organisms into the environment.

APHIS also conducts diagnostic laboratory activities that support the Agency's animal disease prevention, detection, control, and eradication programs. Further, it ensures that the veterinary biologicals developed for combatting disease are potent, safe, pure, and efficacious.

RECENT ACCOMPLISHMENTS

AGRICULTURAL QUARANTINE INSPECTION

The agricultural quarantine inspection program is the Nation's first line of defense in preventing agricultural pests and diseases from entering into the United

States. The program's workload continues to increase as the volume of cargo and amount of international air and sea passenger traffic increases: 34 million passengers in fiscal year 1989 versus 27.2 million in fiscal year 1984. In addition, approximately 54 million automobiles entered the U.S. this year from Mexico and Canada, an increase of approximately 1 million over a year ago, all with the potential of introducing agricultural pests. In fiscal year 1989, 329 million inspections yielded 2.7 million interceptions.

BRUCELLOSIS

The effectiveness of our brucellosis program progresses. At the beginning of fiscal year 1990, there were 27 States plus the District of Columbia and U.S. Virgin Islands, in Class Free; 17 States, plus Puerto Rico, in Class A; and 6 States in Class B. Southern Florida, the only remaining Class C area, was elevated to Class B status on June 8, 1989, and Kentucky improved its status to Class A. From September 30, 1988, to September 30, 1989, the number of quarantined herds dropped 40 percent, with substantial improvement occurring in all of the Class B States. In fiscal year 1989, there were 2,502 new infected herds nationwide compared to 8,483 in fiscal year 1984. The number of herds under quarantine as of December 31, 1989, were 1,411 compared to 6,099 in 1984.

At the same time, during 1989, West Virginia became the 33rd State to earn validated free status in the swine brucellosis program.

BOLL WEEVIL

The boll weevil program has also made good progress. During 1989, the Southeastern Boll Weevil Eradication Foundation did experience some financial difficulties. This was due in part to increased infestations resulting from a warm winter and frequent rains during the pesticide application season. As a result, an emergency was declared and U.S. Department of Agriculture funds were advanced to the Foundation to continue operations. Efforts are now underway to put the program on a sound financial basis; and a strong Federal-State-industry commitment to the success of this program continues. Last year we saw a 35 percent reduction in the average number of weevils per acre compared to the weevil population at the end of 1988 season. The program has already eradicated the boll weevil from Virginia, North Carolina, and 95 percent of South Carolina. Growers in the eradicated area report substantial economic benefits as a result of this program.

The High Plains program has been successful in preventing the boll weevil from spreading into the non-infested areas of west Texas from the rolling plains area to the South and West. In 1988, this cooperative control program trapped 12,314 weevils, compared to 8,022 in 1989.

In the Southwest the original eradication area was expanded in fiscal year 1988 to include central Arizona and northern Mexico near the Arizona border. Traps were increased to 64,000 in the fiscal year 1989 program (14,000 more than in fiscal year 1988); still the number of boll weevils captured was 92 percent less than the previous year at the same time. Significantly, no weevils were captured in California in 1989.

BIOTECHNOLOGY

Biotechnology has emerged as a force with the potential to improve existing products and spawn new technologies with tremendous benefits for American agriculture. Since the program's inception, the Agency has issued 528 permits to facilitate importation, interstate movement, and field testing of biotechnology products. Thirty-five product licenses have been issued for veterinary biological products produced through biotechnology, including vaccines with companion diagnostic kits. These products hold great promise for enhancing the Agency's disease control and eradication programs. Increasingly, companies are field testing products which should improve the productivity of large scale commercial crops such as soybeans, corn, rice, alfalfa, and cotton. In the international arena, the Agency has worked to encourage the development and adoption of consistent oversight procedures for the field testing and commercialization of the products of biotechnology.

ISSUES

APHIS international programs are designed to protect and promote U.S. agriculture by maintaining a presence in foreign countries which are significant agricultural trading partners and may also be potential sources of economically-dangerous agricultural pests and diseases. Program methods include: surveillance, inspection, quarantine, vaccination, and emergency preparedness for foot-and-mouth disease; one of the most devastating of livestock diseases. Our approach requires several strategies ranging from international harmonization of regulations to the establishment of disease-free zones.

Protecting American agriculture from exotic pests has become increasingly more difficult. International trade and travel have increased significantly. In addition, in the last decade plant importations have increased by 56 percent, trade in commercial birds by 111 percent, and air passenger traffic by 126 percent. Immigration from Southeast Asia, Central America, and South America has increased markedly as well, thus heightening the potential of introducing exotic organisms from those areas of the world. Adding to our exposure are recently negotiated trade agreements and continuing efforts in the negotiations on the General Agreement on Tariffs and Trade, which seek to eliminate all market access barriers including minimizing the adverse effects of plant and animal health regulations.

Current infestations of the Medfly and oriental fruit fly in California illustrate the potentially high economic threat of more than 2,500 exotic insects, plants and animal diseases, weeds, and vertebrate pests.

The Medfly and oriental fruit fly are two of the world's most destructive pests of fruits, nuts, and vegetables. Failure to eradicate these infestations in the continental United States, would severely disrupt the $12.3 billion fruit and vegetable industry and could cost $500 million annually to the loss of export markets.

This latest outbreak in California marks the fourth consecutive year that we have faced significant fruit fly outbreaks in California. The current outbreak may approach the seriousness of the fiscal year 1981 infestation which cost the Federal Government and the State of California over $100 million to eradicate. As we have advised the Committees, the scope of the infestation has caused the Secretary to declare an emergency, for which $15 million has been apportioned. The source of the infestation is unknown, but uninspected first class mail from Hawaii and smuggling of fruit from Central America and the Pacific rim countries are suspected.

APHIS has also established a committee to examine the Agency's efforts to prevent the introduction and establishment of fruit flies and other exotic pests. Their task will not be easy. APHIS is faced with increasing constraints on its ability to respond promptly to threatening exotic organisms. Environmental constraints, challenges to pesticides, and the lack of alternative methods, all affect our ability to respond.

Salmonella enteritidis (SE) is emerging as a serious agricultural and animal health problem with related public health ramifications. In the last 3 years alone, over 150 confirmed domestic outbreaks in humans, involving thousands of people, have been traced to eggs infected by SE. A different and more deadly strain has been discovered in the United Kingdom.

Industry losses are increasing. For example, SE has begun to disrupt the $3.2 billion egg industry and the $15 billion poultry industry. Consequently, $6.8 million has been transferred from CCC for a program focusing on breeder and multiplier flocks, as well as commercial flocks implicated in human health incidents.

Public concerns about animal care and the environment affect many APHIS programs. These are growing issues which daily affect our decisionmaking and add to the costs of conducting our programs.

FY 1991 BUDGET

The proposed fiscal year 1991 budget for salaries and expenses, based on current law, is $368 million, an increase of $20.6 million from the fiscal year 1990 post sequester level of $347.4 million. Based on proposed legislation, however, the budget request is $289 million, a decrease of $58.4 million from the fiscal year 1990 level. The proposed legislation would place the entire AQI program and a portion of the veterinary diagnostics and import-export programs on a user-fee basis. For the buildings and facilities account, we are requesting $25.4 million, an increase of $11.8 million from the fiscal year 1990 level of $13.6 million. Of this increase, $5 million will fund the APHIS portion of the APHIS and ARS laboratory consolidation into one building at the Plum Island Animal Disease Center. There are significant cost savings to be achieved after consolidation.

For the pest and disease exclusion function, we propose an increase of $10.4 million in the AQI program to increase staffing at high-risk ports-of-entry and expand the use of detector dogs and X-ray machines. APHIS must increase its capability to develop new technologies and to assess biological risk systematically in making consistent and supportable risk-management decisions. A $702,000 increase is included in the Medfly program to provide funding for the Waimanalo, Hawaii, sterile fruit fly rearing facility operations to produce flies for test eradication efforts on Kauai and for use in emergency outbreaks. For the screwworm program, we propose an increase of $1.8 million to continue operations in Mexico, complete eradication in the Yucatan, and continue eradication activities in Belize and Guatemala.

In the plant and animal health monitoring functions, we request an increase of $3.9 million for the animal disease detection program to expand NAHMS to acquire and assess the information necessary to respond to producer and public needs.

In the pest and disease management programs function, we request an increase of $2.2 million for ADC operations to support increased operating costs and to deal with increasingly complex problems of wildlife damage management. We propose an increase of $1.9 million in the biocontrol program to assist State cooperators in rearing, field collecting, and redistributing natural enemies of the Russian wheat aphid and leafy spurge, and to expand the developing and testing of additional biological control agents. In the brucellosis program, we propose a $2.6 million increase to fund operational costs. We propose a $2.1 million reduction in the animal health compliance and enforcement program, reflecting the changing emphasis on animal health monitoring with a reduced focus on inspections.

In animal care, an increase of $1.2 million in animal welfare is requested to hire additional field inspectors to implement regulations, and to purchase equipment.

In scientific and technical services area, we propose a $2.6 million increase in veterinary diagnostics to develop and evaluate new diagnostic procedures with particular emphasis on rapid and accurate identification of foreign animal and poultry diseases. For biotechnology, we request $1.8 million to fund continuing increases in workload.

CONCLUSION

Mr. Chairman, I would like to conclude by saying that our plans for this year and the issues facing APHIS offer considerable challenge. I am confident progress will be made. On behalf of the APHIS organization, I thank you and the Committee for your support through the years. I will be happy to answer any questions.

Statement of Dr. Lester M. Crawford

Mr. Chairman, I appreciate having the opportunity to appear before this subcommittee to discuss the budget of the Food Safety and Inspection Service (FSIS) for fiscal year 1991.

The mission of FSIS is to ensure that meat and poultry products are safe, wholesome, and accurately labeled. We carry out this mission every day, in every Federal meat and poultry plant in the country through our professional and dedicated staff of 9,000 full time employees.

Since the inception of the meat and poultry inspection program, FSIS has evolved from a plant inspection operation to one that is today directly concerned with broader aspects of public health. For the last fifteen years, the Agency has been modernizing meat and poultry inspection to focus on hazards to public health, by introducing a succession of program improvements that will assure the American people of a safer supply of meat and poultry products and, at the same time, provide them with reliable information relative to the nutritional qualities of the food they buy.

Before getting into the specifics of our fiscal year 1991 budget request, I would like to give you a brief overview of the scope of the work of FSIS.

The Meat and Poultry Inspection Acts permit Federally inspected meat and poultry plants to sell their products in interstate or foreign commerce. At the end of fiscal year 1989, 6,723 meat and poultry plants received Federal inspection. This number consists of 370 slaughter plants, 4,730 processing plants, 1,287 plants with a combination of slaughter and processing operations, and 336 Talmadge-Aiken plants in which State employees perform Federal inspection functions.

During fiscal year 1989, FSIS inspectors examined 121 million red meat animals, approximately 5.9 billion birds, and 155 billion pounds of processed products. In addition, about 2.5 billion pounds of imported meat were approved for entry to the U.S.

Of the red meat animals inspected in fiscal year 1989, approximately 367,000 carcasses, or 0.3 percent, were condemned. For poultry, approximately 70 million birds were condemned, or 1.2 percent of the total number inspected. Carcasses were condemned if they were diseased, contaminated, or otherwise unsafe or unfit for human consumption. Approximately 13 million pounds of imported product was refused entry to the U.S. due to failure to meet Federal requirements.

To provide support for our inspectors in the field, FSIS maintains extensive laboratory capabilities. Three state-of-the-art, in-house, multidisciplinary laboratories, two contract laboratories, and 315 accredited private laboratories provide extensive scientific support to the program in testing products for chemical residues, microbiological contamination, processed product composition, and economic adulteration.

FSIS is committed to basing its regulatory decisions on scientific information. During fiscal year 1989, approximately 551,000 samples of meat and poultry were examined for residues and adulterants. From these samples, 2.5 million separate analyses were performed.

Several "rapid tests" for meat and poultry have been developed by FSIS scientists to be conducted in the plant by inspectors, with the results being available almost immediately. These rapid tests include the Sulfa-On-Site (SOS) test, used to detect the presence of unacceptable levels of the antibiotic sulfamethazine; the Swab Test on Premises (STOP), used to detect the presence of various antibiotics; and the Calf Antibiotic Sulfa Test (CAST), used to detect the presence of antibiotics and sulfa drugs in veal calves. In fiscal year 1989, FSIS conducted 125,059 SOS, 69,387 STOP, and 164,026 CAST tests.

FSIS is committed to protecting public health not only through continual improvements in its inspection techniques, but also through enforcing industry compliance with requirements of the Federal meat and poultry laws. In fiscal year 1989, FSIS detained over 8 million pounds of meat and poultry, and conducted 17 recalls of products involving nearly 6 million pounds. In addition, 29 convictions were obtained for violations by individuals and firms of meat and poultry laws resulting in fines as large as $1 million.

FISCAL YEAR 1991 BUDGET

For fiscal year 1991, FSIS is requesting a total of $440.9 million. This total consists of $257.1 million for slaughter inspection; $108.6 million for processing inspection; $10.9 million for import-export inspection; $25.7 million for laboratory services; and $38.5 million for the Grants to States program. This is an increase of approximately $24 million over the amount appropriated for 1990.

EXPLANATION OF PROPOSED INCREASES

Of the $24 million increase, $19 million is needed to maintain Federal inspection services at the current level. This increase will provide for the rising cost of Federal contributions to employees' retirement, health insurance, and workman's compensation funds, as well as for the rising cost of goods, services, and employee salaries.

An additional $3 million is requested for inspection staffing in slaughter plants. National production of meat and poultry continues to rise annually, with the largest increases occurring in poultry slaughter. The Federal Meat and Poultry Inspection Acts require inspection of every bird and animal at time of slaughter. FSIS has little flexibility in determining staffing levels, and must provide employees to inspect every meat and poultry slaughter line operated by the industry.

An increase of $1.9 million is needed for the Grants to States program to maintain services at the current level. The 1967 Wholesome Meat Act and the 1968 Wholesome Poultry Products Act require State meat and poultry inspection programs to be "at least equal to" the Federal inspection program. If States choose to end their meat and poultry inspection programs or cannot maintain this standard, FSIS must assume responsibility for inspection. Currently, FSIS participates in Federal-State cooperative efforts for inspection of meat and poultry products and provides 50/50 funding to 28 cooperating States.

The total meat and poultry inspection program, which is vital to public health, cost the nation just $1.60 per capita in 1989. While the workload of FSIS has more than doubled since 1974, the budget, measured in constant dollars, has not grown at all. While steadily reducing the unit cost of inspection, FSIS has, at the same time, been improving its effectiveness.

CONTINUING PROGRAM EFFORTS

HAZARD ANALYSIS AND CRITICAL CONTROL POINT SYSTEM

During fiscal year 1989, FSIS committed the Agency to a simple, logical, but highly specialized system for food safety control—the Hazard Analysis and Critical Control Point (HACCP) system. In general, HACCP involves a prioritization of the potential risks and an increased emphasis for inspection on the "critical control points." A critical control point is a point in the production process where failure to control the process is likely to result in the manufacture of an unsafe or otherwise violative product.

In meeting the responsibilities of a public health agency, the Food Safety and Inspection Service has already incorporated some HACCP principles into certain aspects of current inspection operations, and is preparing for implementation of the HACCP system in all appropriate meat and poultry inspection operations. In August of 1989, an FSIS task force was created to begin the process for incorporating HACCP into the Agency's initiatives, programs and regulations.

HACCP is not a new concept; it is a food protection approach that has evolved over the course of the last two decades. It is a simple, logical, and scientific "systems" approach with a proven track record of effectiveness. It is designed to prevent problems from occurring, rather than to "catch" contaminated or otherwise adulterated products at the end of the production line.

The HACCP concept includes seven principles defined by the National Advisory Committee on Microbiological Criteria for Foods in November 1989. These are to:

1. Assess hazards associated with each operational step of growing, harvesting, processing, manufacturing, distributing, marketing, and consumption of raw materials, ingredients and food; and identify prevention measures that can be taken at each step.
2. Determine critical control points (CCPs) required to control the identified hazards.
3. Establish requirements that must be met at each CCP.
4. Establish procedures to monitor each CCP.
5. Establish corrective actions to be taken when there is a deviation identified by monitoring of a CCP.
6. Establish effective recordkeeping systems that document the HACCP plan.
7. Establish procedures for verification that each HACCP system is working correctly. Verification measures may include biological, physical, chemical, and sensory methods, and, when needed, establishment of necessary criteria.

Our inspection program is as advanced as science and resource availability permit it to be at this time. Our intent is to fully incorporate HACCP into our present program of continuous inspection for meat and poultry products. We plan no decrease in the number of our inspection work force and do not envision fiscal economies as a result of HACCP implementation. Simply stated, HACCP is a more effective system for ensuring public health protection, and therefore justifies the transition.

There are many sources of risk to the consumer from meat and poultry bacteria, viruses, natural toxins, parasites, chemical contaminants, decomposition, and mishandling. For the first three—bacteria, viruses and natural toxins—several agencies and private concerns are looking for methods to reduce the incidence of these problems. Results have been slow, but progress is being made, and FSIS will continue to incorporate these new technologies in its current program as they become available and are proven effective and feasible.

The last four risks mentioned—chemical contaminants, decomposition, parasites, and mishandling—are all areas in which the current USDA meat and poultry inspection program has had considerable success in limiting possible danger to consumers. These risk areas have been the focus of more frequent on-site inspection.

We believe that the implementation of HACCP will benefit the public, industry and USDA by focusing inspection activities on the critical areas of product safety and wholesomeness, preventing adulteration, focusing industry responsibilities and actions to produce safe, wholesome and unadulterated food, and by strengthening the scientific basis for inspection operations.

The first step in implementation of HACCP is agreement on basic principles. In late October, FSIS released a concept paper defining HACCP as it will relate to agency operations. In that paper, we announced our plans to begin a two-year study to determine the optimal process for implementing HACCP in meat and poultry inspection operations. Our second step was to develop a strategy for the two-year study that will help us determine the best way to implement HACCP. This strategy paper was distributed in January.

As part of the HACCP study, we will solicit suggestions from FSIS employees, employee and other professional organizations, other regulatory agencies, the public, and the private sector.

We also plan to convene cooperative workshops with industry, which will allow us to draw from their expertise and the expertise of our inspection work force to develop HACCP models for specific products or categories of products. This process will be similar to the work done by the National Marine Fisheries Service in preparing their model HACCP plans.

The objectives of the workshops will be to ensure a mutual understanding of HACCP principles and applications; allow industry and the regulatory agency to work together to develop model HACCP plans for specific products or categories of products; and identify regulations and laws that may need recasting in order to accommodate a HACCP regulatory framework.

After the workshops, we will begin testing the models in plants. Eventually, we will conduct a trial implementation of the HACCP model plan using the HACCP system concurrent with traditional inspection methods. Through the consultation process, we will identify a small number of products or categories of products for workshops. The products and the plants chosen for trial implementation will represent a range of complexities of operations—small to large, simple to complex.

Another critical element in the HACCP study will be training for FSIS inspectors. We anticipate that industry employees would also benefit by participating in training programs. Consumers will benefit by an understanding of our HACCP approach to inspection. The development of a successful and cooperative program will depend on everyone's having a common understanding of HACCP definitions and applications.

LABELING POLICIES

Labeling reform is another high priority for FSIS. The Agency reviews labels prior to authorizing their use. Label approval applications must include the product name, formula, method of preparation, type of container, and a description of how the label is to be used.

Labeling requirements apply to all meat and poultry products. These include: appropriate product name; ingredients used, listed by weight from most to least; net quantity of the package contents; name and address of the manufacturer, packer, or distributor; the USDA mark of inspection; and any special care or handling instructions, such as "keep refrigerated." In addition, any aspect of labels, including photographs or art work depicting a product, must not be false or misleading.

In 1989, FSIS reviewed almost 138,000 labels to ensure truthfulness and accuracy. As consumer interest in health and nutrition grows, industry has responded to this interest by working to present truthful and accurate information on the nutritional value of the products.

FSIS and the Food and Drug Administration (FDA) share responsibility for ensuring truthful and accurate labeling. In 1989, FSIS and FDA contracted with the National Academy of Sciences for a 12-month study to determine the information contained in and the format for the "ideal" label. Labels should be useful for consumers. To determine what information the public wants and needs on labels, FDA and FSIS held public hearings in November and December in Chicago, San Antonio, Seattle, and Atlanta.

Our Agency supports a policy of providing the public with full and accurate information on the composition of foods. To avoid confusion and assure a uniform and coordinated approach to labeling, FSIS will not propose rules for health messages until after FDA develops a final rule as a guideline for other regulatory agencies.

INTERNATIONAL ISSUES

International issues remain a high priority with FSIS. In the 1985 Farm Bill, Congress amended Federal inspection laws to place additional residue controls on imported meat and poultry. Some of the Farm Bill provisions required changes in regulations, and others are addressed by existing regulations and FSIS activities.

The Farm Bill amendments address three areas. First, imported poultry must come from countries which apply to exported product the same inspection, sanitary, quality, species verification and residue standards as are required of poultry produced in the United States. A comparable amendment to the Federal Meat Inspection Act was part of the 1981 Farm Bill.

Second, the Secretary of Agriculture must periodically certify that residue programs operated by countries exporting meat to the United States use reliable analytical techniques to ensure compliance with U.S. residue standards. Third, the Secretary of Agriculture is authorized to set conditions for the importation of live animals for slaughter when they may have been administered an animal drug or antibiotic drug banned in the United States.

With regard to poultry, FSIS has published a final regulation clarifying that imported poultry must meet the same standards as U.S. poultry. Five countries currently export poultry to the United States: Canada, France, Hong Kong, Great Britain, and Israel. Each has implemented residue and species programs that are equal to the U.S. program. FSIS technical experts have reviewed these residue and species programs and have confirmed they are in place and operating effectively. The residue programs include point-of-slaughter random sampling of carcasses, including the internal organs and fat; testing of carcasses for residues of substances used in poultry production or otherwise known to be present in the environment of the country; and the use of approved analytical methods. If needed, FSIS can request additional testing by the country for specific substances.

As a further check on the exporting country's inspection system. FSIS reinspects, on a sample basis, meat and poultry when it enters the United States. Eight types of reinspection can be performed on products at port-of-entry, including random sampling for residues and species verification. Reinspection is directed by the Automated Import Information System. This system stores reinspection results and uses the information to determine the amount of poultry to be examined and the specific reinspection procedures to be applied to each shipment. At port-of-entry reinspection in 1989, FSIS conducted 13,517 residue tests and found 16 violations.

With regard to the requirement for certification of the residue programs of countries exporting meat to the United States, FSIS has procedures in place for annually reviewing and certifying that a country's residue program meets our standards. We require countries to use random sampling techniques and internationally recognized analytical methods. We also require each country to submit its annual residue plan, including the number of samples and the compounds included; and we require the submission of the country's previous year's residue testing results.

FSIS has published a regulatory proposal that codifies the residue program requirements that must be maintained by foreign countries exporting to the United States. This mechanism will provide more extensive information about conditions in a country and will provide FSIS with a better basis for judging the adequacy of a country's residue program.

The regulatory proposal implementing residue certification also would implement the Secretary's authority to prescribe terms and conditions under which cattle, sheep, swine, goats, horses, mules and other equines that have been administered a drug banned for use in the United States, may be imported into the United Sates for slaughter and human consumption.

On another front, last year's dispute with the European Economic Community over the use of hormones has led to a proposal by the U.S. of a model to harmonize international sanitary and phytosanitary regulations. We define "harmonize" as to make equivalent, but not necessarily identical.

The U.S. proposal calls for science-driven international harmonization of animal health and sanitary regulations, plant health and sanitary regulations, and health regulations relating to fresh and processed foods and beverages. The intent is to eliminate non-tariff trade barriers and to ensure that citizens of all nations have access to safe. abundant. and wholesome food at a reasonable cost.

While the U.S. can propose, it cannot implement harmonization based on scientific information on a unilateral basis; it must be done multilaterally. We must work through the international scientific standard-setting organizations that already exist and which are responsible for the establishment of commodity standards, hygiene codes, and certification methods, and which disseminate regulatory guidance.

The Codex Alimentarius Commission, usually referred to as Codex, is one such international organization. It is organized under the Food and Agriculture Organization and the World Health Organization. I am very privileged to work with colleagues from over 135 countries as the U.S. Coordinator for Codex Activities.

Codex initiates and finalizes food standards based on scientific information. Then, after acceptance by governments, it publishes them as either regional or worldwide standards or codes of practice. Codex is involved with standards for all principal foods, whether raw, semi-processed, or processed.

While Codex serves an advisory function, the General Agreement on Tariffs and Trade (GATT) has an enforcement function. Under the U.S. proposal for harmonization, the GATT would use internationally agreed upon standards to settle any disputes between trading partners.

We recognize that harmonization among nations for food safety regulations is a complex and ambitious undertaking. However, it is a priority for FSIS and USDA, and we will continue working with Codex and at the GATT negotiations to achieve our goals.

SCIENTIFIC ISSUES

Scientific advances in controlling residues have greatly benefitted FSIS, industry, and consumers. Often, though, public fears are misdirected. Scientists agree that pesticide residues are not a major public health problem, yet pesticides top the list of consumer fears about food. In contrast, bacteria cause millions of cases of foodborne illness each year, yet many consumers fail to recognize this potential threat or their ability to help control the problem.

The greatest risks to public health posed by meat and poultry are from microbiological hazards. Therefore, FSIS continues to place the highest priority on the search for new ways to control or eliminate microbiological hazards.

An important element in the agency's modernization program is the National Advisory Committee on Microbiological Criteria for Foods, which was mentioned earlier for its role in HACCP. The Committee has divided into subcommittees to allow experts to concentrate on their areas of expertise.

The Meat and Poultry Subcommittee has concluded its work for the development of microbiological criteria for refrigerated ready-to-eat meat and poultry products, and the Seafood Subcommittee for microbiological criteria for cooked ready-to-eat shrimp and crab meat. A separate HACCP subcommittee was established to define the principles of HACCP.

In May 1989, FSIS published in the Federal Register a revised monitoring and regulatory policy for control of Listeria monocytogenes in ready-to-eat meat and poultry products. The new program began in July.

Highlights of the revised program include increasing sample sizes for monitoring; sampling of intact consumer-size packages and immediate recall of product which tests positive; informing plant management when samples are taken; and, allowing plants to hold product pending receipt of test results.

FSIS, in cooperation with the Agricultural Research Service (ARS), has also been looking closely at the microbial problems that can occur during reprocessing of poultry. In 1989, ARS conducted a study for FSIS comparing the microbial quality of uncontaminated chickens processed on the line with that of birds reprocessed after contamination by intestinal contents. The study showed no significant differences in microbial quality between reprocessed birds and the others.

A long-term study completed in 1989 yielded promising results for improving the microbial quality of raw poultry by suggesting simple changes, such as adding chlorine to the chiller water. In November, FSIS began raising four flocks of birds on feed containing organic acids in an effort to decrease the presence of salmonellae in the intestines of birds arriving at the plant. During 1991, the Agency will concentrate on changes at the farm, as well as additional processing changes.

In addition to its microbiological control program FSIS continually monitors for chemical residues as well as for animal drugs and environmental contaminants under our statistically-based sampling program called the National Residue Program. The Environmental Protection Agency and FDA establish the acceptable levels of residues or tolerances for these contaminants in their respective areas of responsibility. Using these tolerances, FSIS has found that less than one percent of all samples contain illegal residues.

In 1989, FSIS conducted an intensive surveillance testing program at poultry and swine slaughtering plants in 10 States. The testing was begun after the banned pesticide heptachlor was found in chickens in Arkansas. After four months of operation, only one of approximately 3,900 samples taken was positive for heptachlor.

PUBLIC INFORMATION AND CONSUMER EDUCATION

FSIS continues to place a very high priority on educating consumers about proper food handling practices and informing the public about our inspection activities. Many food safety hazards can be easily controlled by proper food handling.

During 1989, FSIS completed its first food safety education pamphlet targeted to Spanish speaking consumers. The first of its kind to provide basic food safety information in both Spanish and English, the publication is being targeted to recent immigrants in Texas, Florida, New York, and California.

Work has begun on a new food safety brochure for consumers. Based on the HACCP process of identifying steps in food handling that could lead to foodborne illness, the publication will point out the most critical steps consumers can take in preventing foodborne illness at home. This publication is scheduled for release later this year.

Two new public health education campaigns have been recently completed. One campaign is focusing on wellness programs to promote food safety by providing food safety information to consumers who are most at risk for developing foodborne illnesses—the elderly, pregnant women and young children, and those who are chronically ill.

Food News for Consumers is the FSIS quarterly food safety magazine sent to 1,500 food, health, and science writers, and 13,000 nutritionists, dietitians, public health officials, home economics teachers, and Cooperative Extension Specialists. In 1989, the magazine included articles on emerging pathogens such as the Norwalk virus and hemorrhagic E. Coli serotype 0157:H7. Basic food safety information was included in articles on what to do when the power goes out, how to prevent foodborne illness at holiday meals, and proper cooking of eggs to prevent salmonellosis. In the Winter 1990 issue, the magazine took a more scientific approach to explain "The State of Food Safety." Other topics to be covered this year include safe microwave cooking and handling food safely for groups at risk for foodborne illness.

The Meat and Poultry Hotline continues to be an important tool in the prevention of foodborne illness. Last year, 64,000 people called the Hotline for food safety information. It is projected that in 1990, 80,000 people will call. The growing market for convenience foods led to concerns about mail order, precooked, and prepackaged meals and entrees. FSIS is continuing to explore expanding the Meat and Poultry Hotline to a Food Safety Hotline answering questions about all food products.

PERFORMANCE BASED INSPECTION SYSTEM

As part of a modernization of our traditional inspection system, we have introduced an inspection framework called the Performance Based Inspection System (PBIS). PBIS was implemented nationwide in 1989. This system of structured, computerized assignment schedules guides inspectors in determining what to inspect and when to inspect it. PBIS is an independent system, and currently helps make processing inspection more uniform. It also provides FSIS with its first easily-accessible database on plant compliance.

In implementing the system, the Agency has trained more than 3,665 inspectors, supervisors, and managers. FSIS is presently introducing system improvements and refinements, a process that will continue in 1990. The Agency is seeking ways of strengthening this already useful system. We have appointed working groups to examine the PBIS system in terms of information management, enforcement, staffing, and the corrective actions taken when a problem is found.

Mr. Chairman, this concludes my statement. Thank you for the opportunity to testify on the budget needs and priorities of our Agency. I will be glad to answer any questions you or other members of the Subcommittee may have.

STATEMENT OF DANIEL D. HALEY

Mr. Chairman and Members of the Committee, I appreciate the opportunity to appear before you today to present our fiscal year 1991 budget request. Accompanying me today are Kenneth C. Clayton, Deputy Administrator for Marketing Programs; Linda Massaro, Deputy Administrator for Management; and Joseph A. Roeder, Director of the Financial Management Division.

Prior to presenting the specifics of our budget request, I would like to briefly discuss AMS' mission.

THE AGRICULTURAL MARKETING SERVICE MISSION

The Agricultural Marketing Service (AMS) administers more than 30 statutes which authorize us to carry out a wide array of programs aimed at facilitating the marketing of agricultural products, assuring consumers of a quality food supply, and ensuring fair trading practices. We: provide comprehensive market information on a daily basis; develop and maintain quality standards for agricultural products; inspect and grade commodities; procure surplus agricultural commodities; administer marketing orders; conduct marketing research; administer statutes through regulation; and conduct cooperative programs with the States to improve local marketing systems.

The goal of these programs is to make the U.S. marketing process the most efficient, dependable, economical, and equitable system possible. We strive to adapt our services to changing marketing practices and technological advances, and to be reflective of producers' and consumers' needs.

It perhaps goes without saying that consumer confidence in the safety of the food supply is important to the marketing of agricultural products. Recent concerns over food safety clearly present new challenges to producers, marketers, and government agencies, such as the Agricultural Marketing Service.

Our budget request, which I will discuss next, includes funding to develop a more proactive approach to several of these challenges—by improving inspection, providing greater protection of our food supply, and allowing us to better respond to consumers' and producers' food safety concerns.

BUDGET PROPOSAL

AMS has three separate accounts for which we receive appropriated funds: Marketing Services, Payments to States and Section 32 Administrative Expenses. For Marketing Services, our fiscal year 1991 budget request is $52.3 million—$19.1 million more than the fiscal year 1990 level.

Our request for Payments to States and Possessions is $942,000, a decrease of $294,000 from the fiscal year 1990 level.

Our Section 32 administrative request is $14.2 million, $2 million more than the fiscal year 1990 level.

Included within the proposals are increases for monitoring pesticide residues, egg products inspection, market news, commodity procurement, marketing agreements and orders, and funds to offset increased operating costs.

The budget request does not propose any program eliminations.

MARKETING SERVICES

In our Marketing Services accounts we are requesting additional funding of: $15.8 million in our Market Protection and Promotion Program to initiate a pesticide residue monitoring program for fresh fruits and vegetables; $1.1 million in the Egg Products Inspection program for increased monitoring and more prompt enforcement of regulations governing safety and wholesomeness of egg products; and $535 thousand for our Market News program to continue development of a computerized data base and communications network.

SECTION 32 ADMINISTRATIVE

In our Section 32 Administrative account, we are requesting: $1.2 million for operational costs associated with the Processed Commodity Inventory Management System (PCIMS); and $352 thousand to improve administration of marketing agreements and orders.

Finally, we are also requesting $540,000 to offset increased costs in non-salary operating expenses, such as travel, printing, and telephone charges, and $1.5 million for increased pay costs.

In addition to these changes, we have legislative proposals which, if enacted, would reduce our need for appropriated funds. In our Marketing Services account, our appropriated needs would be reduced by $4.4 million if user fee legislation is enacted. Similarly, in Section 32, $8.3 million could be saved if authorizing legislation is enacted.

I intend to discuss these legislative proposals in more detail later. However, at this point, I would like to more fully explain our need for increased funding in certain programs, and the benefits resulting from these additional funds. Overall, our requested increases will enable us to react to food supply issues which are of national interest, and to implement technological changes which will improve our efficiency.

FOOD SAFETY

Food safety and determining quality attributes of agricultural products are at the core of our agency's mission. With respect to food safety, we provide continuous inspection of egg breaking and processing plants producing liquid, frozen, or dried egg products to ensure the wholesomeness of these products. Shell egg handling operations are inspected at least four times annually to control the disposition of certain types of restricted eggs.

In addition to these legislatively mandated food safety activities, AMS provides analytical testing for microbiological and chemical elements relating to processed dairy products, eggs, meat and poultry, and fruits and vegetables in support of voluntary grading, certification, and acceptance programs. We also provide testing of peanuts and other commodities for aflatoxin.

Our fiscal year 1991 budget proposal of $15.8 million for food safety is part of a USDA coordinated effort to address this issue. Four agencies, including AMS, are requesting a total of $25.0 million to develop an objective data base on chemical residues in foods to help restore the public confidence in our U.S. food supply. Representatives from the National Agricultural Statistics Service, the Economic Research Service, and the Human Nutrition Information Service have already discussed their proposals with you during their respective hearings.

AMS' involvement in this Departmental initiative is to develop a nationwide pesticide residue monitoring program. The goal of the program will be twofold: to develop a comprehensive data base on pesticide residues that will be federally-administered and state-operated to help ensure the safety of the domestically-produced American food supply; and to communicate this food safety information to consumers both in the U.S. and to our international trading partners.

During the first year, our efforts will be limited to pesticide residues found on fresh fruits and vegetables in high production States. In subsequent years, efforts will be expanded to include other States or commodities. Under the proposed program, States will sample and test commodities within market distribution channels for pesticide residues. Uniform protocols for random sample collections, pesticide analyses, and data reporting, including laboratory quality assurance programs, will be used. AMS will consolidate and analyze this information and regularly report the results and the public health significance to the public, the media, and government officials. This program will contribute to improving the Government's risk assessment and risk management procedures, and will be interconnected with the pesticide usage survey initiative of NASS and ERS, as well as the residue exposure assessment initiative of HNIS.

In addition to collecting and analyzing nationwide data on pesticide residues, we have other ongoing programs that require increased attention because of food safety concerns. Although great progress has been made in identifying and preventing some foodborne diseases, outbreaks of microbial origin continue to persist or are on the rise, such as the case with Salmonella enteritidis (Se). Previously; unrecognized pathogenic microorganisms are being acknowledged, and new techniques in food processing and storage have created new types of safety and wholesomeness issues. In response to these concerns, our 1991 budget proposes $1.1 million for the initiation of a surveillance program to determine if these new foodborne pathogens are potential problems in egg products.

Further, we propose to expand our current egg products residue monitoring program. Unlike the microbiological surveillance program, this program is designed to investigate and control the movement of potentially adulterated products. Also needed are development efforts on new rapid detection tests to enhance laboratory capabilities for dealing with both microbiological and chemical contamination. Also in response to changing food safety concerns, we will evaluate a Hazard Analysis Critical Control Points program to monitor potential microbiological contamination in egg processing facilities. Under this system, identification and assessment of hazards associated with growing, harvesting, processing, marketing, preparation, and use of a given raw material or food product will be made at key points in the production process.

We believe these initiatives, coupled with efforts by our sister agencies within the Department, will allow us to proactively deal with emerging pesticide problems and help ensure that changing industry practices and scientific and technological advances are consistent with a safe and wholesome food supply.

MARKET NEWS

I would now like to discuss other functions of AMS not directly associated with food safety, but ones of critical importance in helping us to enhance the marketing system. I will limit my discussion to those programs where enhancements are needed to enable us to more efficiently provide our services.

Our market news program collects and disseminates pertinent agricultural market information to the public, as well as to other USDA organizations, state and federal agencies, and institutions. Producers, dealers, wholesalers, and agricultural analysts rely on this timely information for their very livelihoods. The current method of preparing reports for dissemination is redundant and time consuming. Rekeying of information is often necessary by market news personnel. In addition, there currently is no automated system for storing and retrieving information. Other problems include having to customize the format of each report, manually reviewing hard copies to retrieve requested information and duplicating data for analytical purposes. In recognition of these outdated procedures, AMS has been developing a comprehensive database system that will allow market news personnel to enter, retrieve and analyze data in a more efficient manner. Our 1991 budget includes $535,000 which will enable us to enter the final stage of this project and purchase the equipment necessary to complete this effort.

COMMODITY PROCUREMENT SERVICES

AMS' commodity procurement program involves the purchase of agricultural commodities to meet the entitlement needs of the National School Lunch and other domestic feeding programs. Purchases of commodities in excess supply also stabilize market conditions. The data systems that have been used by the Agricultural Marketing Service, the Food and Nutrition Service and the Agricultural Stabilization and Conservation Service to purchase, store, and deliver commodities were developed to meet individual agency requirements. The need for a coordinated procurement system was recognized several years ago and efforts have been underway to develop a Processed Commodity Inventory Management System (PCIMS). Our 1991 budget includes $1.2 million which will enable us to fund AMS' portion of this system. The system will provide for better control through more accurate, consistent, and timely information; better analysis of bid alternatives; and quicker response to changed requirements mandated by Congress or the Secretary of Agriculture.

MARKETING AGREEMENTS AND ORDERS

Our last requested program increase is for our marketing agreements and orders program. This program helps stabilize supplies and market prices for milk and fruits and vegetables, thus benefitting both producers and consumers. Over the last several years, marketing orders and regulations have become more complex and our resources to adequately review these orders have been severely strained. Funding of $352,000 is being requested to provide more frequent reviews of marketing order operations, and to provide enhanced analysis of rulemaking and industry/committee proposals. Also, additional funding is needed to more effectively enforce the civil penalty provisions for violators of marketing orders.

FISCAL YEAR 1991 LEGISLATIVE PROPOSALS

In addition to these programmatic changes, we are also proposing legislation that would convert the source of funding for our standardization, marketing agreements and orders, and printed tobacco market news report programs from an appropriation to user fee basis.

Specifically, AMS proposes to charge user fees to: recover the $3.9 million cost of developing, reviewing, or modifying commodity standards. The cost of this work will be incorporated into existing grading fees, increasing them by an average of 3.5 percent; recover the $9.4 million cost of administering marketing agreement and orders programs for milk, fruits, vegetables, and nuts, including the statistical analyses of market conditions currently performed in the Market Development and Assistance program; and recover the $30,000 cost of postage, printing, and handling of tobacco market news reports. This is the last remaining printed market news report which AMS provides free-of-charge.

Over the years, AMS has consistently and successfully pursued efforts to transfer program costs from the general public to the primary beneficiaries. Our fiscal year 1991 user fee proposals are a continuation of that effort.

In order to accomplish this conversion to user fees, we are requesting one-time funding of $577,000 to fund liabilities such as annual leave and workers' compensation that accrued while these programs were appropriation supported.

This concludes my statement, Mr. Chairman. At this time, I would be glad to answer any questions regarding our program activities or proposed budget.

BIOGRAPHICAL SKETCH

DANIEL D. HALEY

Before joining AMS as Administrator in September 1989, Haley served for two years as chief deputy director of the California Department of Food and Agriculture. In that position, he directed more than 2,500 State employees and was the key liaison to the State legislature and governor's office.

Prior to his appointment as chief deputy director, Haley held several positions with the Western Growers Association. He was the organization's Vice President for Government Affairs from 1983 to 1987. Previously, he served as attorney and head lobbyist, representing the trade association in California, Arizona, and Washington, D.C.

Haley received a bachelor of arts degree from Arizona State University in Tempe and a juris doctor degree from the Western State University College of Law in San Diego.

ADMINISTRATIVE COSTS

Senator BURDICK. Thank you.

Dr. Glosser, as you know, there has been considerable complaining about the amount of money being taken by APHIS for administrative costs on these various programs. The complaints have touched several programs, including pseudorabies and animal damage control activities. I know that the pseudorabies situation was the subject of a hearing at the Senate Agriculture Committee.

But the concern did not lie with that program alone. It seems to be rather widespread throughout the agency. Please comment on these concerns and tell us what your overhead costs are. Include whether they have changed recently, especially with the new organization at APHIS.

Dr. GLOSSER. Thank you, Mr. Chairman. I am pleased to respond.

As Assistant Secretary Smith pointed out, our overhead costs are less than 16 cents on the dollar, and are financed from each of the 39 different line item programs. Animal damage control and pseudorabies, as you point out, are just two of these examples.

We have no separate line items for such things as administration, regional offices, training, equipment, and informational support. This is the first full year of our reorganization and we have centralized many functions. We have dedicated funds for some support activities at their source rather than spreading the costs among all the field offices. Training is one example where we have done this.

I feel that it's very important to have consistency in our training programs and our automated data processing systems. There are many important elements that go into support of these field programs. I have before me 13 items that are needed to support successful programs. They are: operational planning, program design, obtaining legislative and budgetary authority, development and publication of the program regulations, and national and regional coordination with the States and industry; personnel work including recruiting, hiring, training, and payroll processing; procurement of supplies and equipment, contracting for our services, development of cooperative agreements, and property management; financial support—accounting and payment processing; informational support and program recordkeeping; and evaluation of these programs.

I have attempted to clearly identify these support costs at the source, so that we could track them better for auditing purposes and know how these moneys are being used. In the past, they tended to be included in regional or State allocations.

I certainly share the concerns of the committee about program support and administrative costs. They have not varied from the previous organization. We have held them to about 15.8 percent of our budget.

Senator BURDICK. Can you tell me that in every situation where an increase for a specific program was provided for in 1990, that increase or at least a portion of it was passed on to the field? If that is not the case, why not?

Give the specific cases where it is not true, with a justification.

Dr. GLOSSER. No, sir; I cannot say that the entire amount of each increase was provided to the field. I can assure you that at least a portion of each increase was provided to the field and I will use animal damage control as an example. The $3.8 million net increase for animal damage control after sequestration was allocated as follows: $1.2 million to research for pesticide registration work; $1.3 million to the field operations; $433,000 for field costs paid from central allocations; $206,000 for the environmental impact statement that we are in the process of completing; $86,000 was dedicated to the Pocatello Supply Depot; and a $60,000 cooperative agreement with the National Agricultural Statistics Service for gathering better data on livestock losses. The remainder was allocated for program and administrative costs to support regional offices and headquarters.

So I can't say that for every program where there was a net increase that all of the net increase went to the field, because each of these had to pay the proportionate cost of all these items that I mentioned.

Senator **BURDICK**. What did the field operations cost in 1990 and 1989?

Dr. **GLOSSER**. I am sorry, sir?

Senator **BURDICK**. The field cost operations, what were they in 1989 and 1990?

Dr. **GLOSSER**. In 1990 the allocation to the animal damage control field operations was increased by $1.3 million. I do not have the 1989 data before me. I would like to submit it for the written record.

Senator **BURDICK**. You would? Could you get it to us in 5 days?

Dr. **GLOSSER**. Yes, sir.

Senator **BURDICK**. Thank you.

[The information follows:]

ADC FIELD OPERATIONS

Total field operations: fiscal year 1989, $13,253,000; fiscal year 1990, $14,566,000; change, $1,313,000.

GRASSHOPPERS

Senator **BURDICK**. You are proposing a program reduction of $2,672,000 in the Grasshopper and Mormon Cricket Program. Officials in North Dakota are very concerned about a significant grasshopper outbreak this year. I'm getting reports of exceedingly high egg counts in North Dakota this spring, and if the weather is favorable for the hatching we will have a major problem in the State.

Yet you indicate that the grasshoppers population is under control. What is your current assessment of the grasshopper situation in North Dakota and around the country?

Dr. **GLOSSER**. The surveys which we have conducted in the 17 rangeland States for which we have had operational responsibility since the 1950's indicate that we are in the low cycle for grasshoppers, and therein lies our reason for a decrease in funds.

Given our experience over the past 2 to 3 years with the treatment program in rangeland States, we felt that the moneys that we have are sufficient to deal with even a worst case scenario on rangelands.

In North Dakota and Minnesota CRP lands, there are very, very high grasshopper counts that certainly are alarming. The CRP land may be beyond our jurisdiction to treat. Our environmental impact statement covers only the rangeland States.

Senator **Burdick**. My next question: You mentioned CRP. What work are you doing to control the grasshoppers in those lands?

Dr. **Glosser**. We are developing various options on this. We can supply technical assistance, but our environmental impact statement does not include all States; such as Minnesota.

Senator **Burdick**. Is that true in North Dakota, too?

Dr. **Glosser**. We have in the past treated CRP lands, those segments of CRP lands that were part of a minimum 10,000-acre rangeland spray program. We have regarded the CRP lands in North Dakota as being rangeland and have entered into cost sharing with the owner and the State. Each party pays one-third of the cost.

Senator **Burdick**. Did you say that they had to be a 10,000-acre tract?

Dr. **Glosser**. Yes, sir; the only exceptions are small isolated areas—where we can treat the whole infestation—or when we are treating Federal lands adjacent to private cropland.

So throughout the years we have found that the most cost effective and biologically feasible blocks of land to treat are a minimum of 10,000-acre tracts.

Also, all land within the 10,000-acre tracts must be sprayed.

Senator **Burdick**. You understand, by using that criteria you are eliminating a lot of land?

Dr. **Glosser**. We are, sir, there is no question. In addition to the 10,000-acre limitation, another factor is that if there is more than 20 percent cropland, we do not get involved in it because cropland is not addressed in our environmental impact statement.

BLACKBIRD CONTROL

Senator **Burdick**. You have been working with the people in North Dakota to control blackbird deprivation. I understand that this effort will now take a focus on controlling cattail habitat in order to reduce desirable blackbird nesting and roosting grounds.

Can you please elaborate on this project?

Dr. **Glosser**. You have described the basic approach that we have used. I would like to defer at this time and give you a detailed account of our operations and that approach for the record.

As you know, we have been trying to work for finding an avicide that would be effective, and that has run into some problems, and I would like to supply for the written record a more detailed operational account.

Senator **Burdick**. That would be fine.

[The information follows:]

Cattail Management to Control Blackbird Depredation in North Dakota

Background: Dense stands of cattail vegetation in the wetlands of North Dakota provide the ideal habitat for both breeding blackbirds and harboring large roosting congregations during the sunflower growing season. A cooperative project was established with North Dakota University to direct research efforts at developing cost effective methods of reducing cattail vegetation to the point where it will no longer be attractive to the blackbird population. Measurement of the effects on distribution of these populations and the magnitude of sunflower losses near treated marshes are also being tracked.

Federal Involvement: The cattail management plan being developed by the National Sunflower Association and the North Dakota Department of Agriculture has the interest and support of the U.S. Fish and Wildlife Service, North Dakota Game and Fish Department, Farm Bureau, Stockman's Association and local farmers. The U.S. Fish and Wildlife Service (FWS) recognizes that these degraded marshes have reduced value as wetland habitat for other wildlife species. In particular, they are concerned about the extremely low waterfowl production in these marshes. We have continued to communicate with various interests within the FWS, including researchers and wetland managers. They are supportive of our efforts to develop improved management strategies for these important wetland resources.

APHIS Involvement: ADC assisted the National Sunflower Association and the North Dakota Department of Agriculture with field tests to develop a technique for cattail management. The Denver Wildlife Research Center is directing research efforts to develop cost effective methods of reducing cattail vegetation to the point where it will no longer be attractive as a blackbird breeding or roosting site as well as measuring the effectiveness of habitat alteration in terms of distribution and magnitude of sunflower losses. Hazing, though not very efficacious, is still the most effective method of managing blackbird damage currently available to Animal Damage Control. Hazing operations will continue to be funded at current levels.

Senator BURDICK. Just another question along that line. You may have the answer for it this time. How much money will you spend on blackbird control in 1991 and how does this compare with 1990?

Dr. GLOSSER. $368,000 for 1990 and $368,000 is scheduled for next year's treatment.

Senator BURDICK. Will the cattail control project come at the expense of the blackbird hazing project?

Dr. GLOSSER. No, sir; we plan to continue funding the blackbird hazing project at the current level.

The $368,000 includes the cattail control project. The money is allocated for that project.

BIOCONTROL LINE ITEM

Senator BURDICK. You propose an increase of $1,862,000 for biocontrol and indicate that leafy spurge and Russian wheat aphid receive substantial emphasis under this program. Can you explain that?

Dr. GLOSSER. Yes, sir; under the format that we have presented our budget, the biocontrol line item includes $1.5 million this year and $1.5 million next year for leafy spurge biocontrol efforts.

For Russian wheat aphid, this year we have expended $750,000. We are expecting to devote or earmark $850,000 next year for the Russian wheat aphid for evaluation of new promising predators. The efforts in both of those programs will be either sustained or accelerated. In the case of the Russian wheat aphid, it will be accelerated. We are finding very promising results in both of these projects—we have found predators which will sustain themselves over winter.

LEAFY SPURGE

Senator BURDICK. All my adult life in North Dakota and elsewhere, I have heard about the leafy spurge. Are we making any progress at all?

Dr. GLOSSER. Yes, sir; we are making good progress in the identification of predators of that particular weed that will sustain themselves in the environment without constant release. The money that has been dedicated to biocontrol has been well spent. We certainly would not say that biocontrol is the panacea or the total answer, but it looks promising.

RUSSIAN WHEAT APHID

Senator **Burdick**. We gave you $1 million for Russian wheat aphid control. Why are we only spending $750,000?

Dr. **Glosser**. The $750,000, that I referred to, is operational field work. The balance of the Russian wheat aphid work is methods development and testing, rearing new predators in the laboratory, if you will.

Senator **Burdick**. The balance is being spent in the laboratory, is that it?

Dr. **Glosser**. The balance, yes, the roughly $250,000, is being put into our methods development research laboratories.

FSIS INSPECTORS

Senator **Burdick**. This question is directed to Dr. Crawford. For the Food Safety Inspection Service the 1991 budget proposes an increase of $21 million in operating costs and $3 million for increasing the number of inspectors to cover plant activities. Why is FSIS recommending the addition of 102 staff for inspection coverage of meat and poultry slaughtering plants?

Dr. **Crawford**. This is to accommodate growth in the industry, Senator. We found that the slaughter of animals and poultry in the industry we serve is still increasing, and therefore there is a requirement for more inspectors, and that is what this item contemplates.

Senator **Burdick**. Dr. Crawford, your budget estimates that the number of slaughter and processing plants inspected in 1990 will remain the same in 1991. Does this mean that increased staff will be assigned to meat and poultry existing facilities and that these facilities will be significantly increasing production?

Dr. **Crawford**. Yes; we are seeing a larger volume of slaughter as these plants become more concentrated, and also the industry itself becomes more concentrated. There is a higher volume of animals slaughtered per shift, and also more shifts being added.

As you know, 10, 20 years ago it was fairly uncommon to have both day and night shifts at all plants. Now we are seeing not only that, but imposition even of third partial shifts as concentration continues.

Senator **Burdick**. Upon what factors do you base your estimates showing increases of millions of pounds of meat and poultry that will require Federal inspection in 1991?

Dr. **Crawford**. We do that in two ways. One is we, as you know, keep track of the numbers slaughtered. We keep a volume record as we do the inspections, so we are able to see trends over the short term and project that into the long term.

We also are cognizant of the amount of cattle on feed. USDA, as you know, keeps records of that, as well as the market demands for exportation of beef and pork and poultry products.

Senator **Burdick**. Well, coming from that country, what does the effect of the drought have upon the meat entering the market of necessity at this time?

Dr. **Crawford**. Drought conditions, as you know, frequently result in two or three developments. One is the selling off of the so-called cow herd; and also cutting back on the number of animals in feedlots if there is also a reduction in available water.

Water supplies in the Texas Panhandle, for instance, have been a problem over the last few years, and they have had difficulty pumping the water out of the ground in order to provide it to the animals on feed.

The cow herd, as you also know, is distributed throughout the country, including States like Mississippi and Louisiana. And so a localized drought would not affect the cow herd as much as would a widespread drought. But there is no question that the drought is a factor that should be weighed into these considerations, wherever it occurs.

FSIS REGULATION

Senator **Burdick**. In 1989 FSIS proposed regulations to reduce the intensity of inspection at meat and poultry processing plants. Why were these regulations withdrawn? Were comments to them favorable? If not, why not?

Dr. **Crawford**. The proposal that you refer to was called improved processing inspection. It was a regulation which was proposed in order to implement the 1986 Processed Products Inspection Act.

The improved processing inspection proposal authorized less than continuous inspection of processed products, but did not apply to animals slaughtered, and it also proposed a 50-percent reduction in the inspection force. Public comment in response to that proposal was largely negative. The public and also the industries that we regulate generally oppose a reduction in inspectors.

There was also some concern about the mechanics of the proposal and the clarity of it as stated in the Federal Register. But I believe it is fair to say that the primary matter of concern was the reduction in the inspection force.

When we received the comments we, as you would expect, analyzed them with respect to their relevance, and we concluded that the best thing in terms of responding to the public commentary was to cancel that proposal, which we did. Since that time, because of a National Academy of Sciences study and also because of some developments around the world in inspection systems, it may be that the concept of improved processing inspection has now become outdated and in its place is a program which actually provides a somewhat more comprehensive inspection system, based on the latest scientific principles.

HAZARD ANALYSIS AND CRITICAL CONTROL POINT

That is the system Ms. Smith referred to, which is called the hazard analysis and critical control point system, or HACCP. We have now undertaken, as you may know, a 2-year study of taking this system and applying it to inspection, not only in processing plants, but with all the foods that we inspect.

You would also want to know that the Food and Drug Administration and the National Marine Fisheries Service also are contemplating a broad usage of HACCP principles in inspection. Simply stated, HACCP is a systematic way of guaranteeing that everything that can be done in order to ensure a safe product is done. It identifies the critical control points in food production where contamination or adulteration could be added to the system, therefore resulting in an unsafe or perhaps adulterated product, and it prescribes a system for preventing that from happening and also regularly monitoring it.

That is the system we are now dealing with.

Senator **Burdick**. We will be in recess for 5 minutes.

[A brief recess was taken.]

FISH INSPECTION

Senator **Burdick**. This question is directed to Dr. Crawford. The budget justifications refer to testimony of the Food Safety Inspection Service regarding fish inspection. Under its current budget proposal, would FSIS be able to implement full-scale inspection programs of fish processing facilities? Would the meat and poultry inspection programs suffer?

Dr. **Crawford**. If we were to take on other inspection programs, it would require additional funding.

Senator **Burdick**. In other words, it follows that it would hurt the program, then.

Dr. **Crawford**. Well, if we had to take it on without additional funding, I do not know what we would do, because we now utilize all our money each year.

Senator **Burdick**. How much would FSIS have to augment its budget to promote a full-scale fish inspection program?

Dr. **Crawford**. We really do not know that, Mr. Chairman. In some of the hearings that have been held on fish inspection, the figures from $70 to $90 million a year have been discussed. But we don't have any official position on that.

SEAFOOD INSPECTION

Senator **Burdick**. Why does the administration's budget for FSIS not include an increase for seafood inspection?

Dr. **Crawford**. We do not have the authority to do seafood inspection. If that program were to be transferred to us, it would have to be done by the Congress. We have no authority in that regard, and therefore we have not included it in our budget.

Senator **Burdick**. You proposed other legislation for which you have no authority, I have been told.

Dr. **Crawford**. Have I proposed other legislation?

Senator **Burdick**. With no direct authority. How about user fees?

Dr. **Crawford**. We are not proposing user fees for the meat and poultry program.

FOOD SAFETY INITIATIVE

Senator **Burdick**. This question is for Mr. Haley. The 1991 AMS budget request included an increase of $15,816,000 for a food safety initiative tailored to test and track pesticide usage and residues.

What portion of the $15 million proposed would be spent to develop the national pesticide usage data base?

Mr. **Haley**. The entire $15.8 million requested in the fiscal year 1991 budget for the food safety initiative is necessary to provide the information needed for the data base. The hardware, software, and systems development costs for establishing a pesticide residue data base is estimated to be $1.3 million.

Senator **Burdick**. 2.1 what?

Mr. **Haley**. No; the request is $15.8 million.

Senator **Burdick**. Will information be collected from farmers——

Mr. **Haley**. AMS will not be collecting information from farmers. Our data will be collected at the retail and wholesale level.

Senator **Burdick**. I did not follow your arithmetic. Now what is the figure?

Mr. **Haley**. AMS has requested $15.8 million to develop the data base. We will actually be paying $13.3 million directly to the States so they can collect pesticide residue data through their State programs.

Senator **Burdick**. Will information be collected from farmers, farm organizations, county extension offices, or strictly through State contracts?

Mr. **Haley**. Pesticide usage and residue data will be gathered and analyzed at various stages throughout the production, marketing, and consumption process by USDA agencies. Pesticide usage information will be collected from farmers by USDA's National Agricultural Statistics Service. They will use voluntary surveys to collect pesticide usage data from farmers.

What that does, Senator, is allow us to know what pesticides were applied in the field. This information will be useful in our efforts to develop a data base of pesticide usage. In addition, AMS will provide funds to States to collect pesticide residue data through their State programs. Samples will be taken at the retail and wholesale level. AMS will include the data supplied by NASS in its data base.

Senator **Burdick**. Senator Cochran has just entered the committee room. Senator Cochran, would you like to handle these people?

APHIS REPROGRAMMING

Senator **Cochran**. Mr. Chairman, thank you very much.

We have received some complaints about APHIS funds being reprogrammed or reallocated for other purposes. I understand that this may have been touched on to some extent already in connection with the reorganization of APHIS.

What can you tell me that I can pass on to those who are upset about the way the funding is being changed, in effect, from the way the committee provided in its bill last year?

Dr. **Glosser**. Senator Cochran, earlier I had pointed out that we have in many instances centralized functions and identified costs at the source rather than spread them among all the field offices. I also pointed out what it takes to support any of the 39 line item programs that we have.

As far as reprogramming or redirecting any moneys from the boll weevil, there were no moneys reallocated from boll weevil for other purposes. But I can repeat many of the items that we know are absolutely inherently necessary to operate a good operational program—operational planning, program design, obtaining legislative and budgetary authority, and development of the program regulations to name just a few.

I have a list of several areas of operational support, and administrative support needed to provide an adequate and well-trained work force with the proper equipment to provide those services that Congress intended for us to do.

ADC PROGRAM AT UTAH STATE

Senator **Cochran**. Some questions have been given to me by a member of the Appropriations Committee, Senator Garn of Utah, regarding the animal damage control program at Utah State. You may be able to give me an answer to the first question and then I'll submit the others for response for the record.

The first one is: It is my understanding that discussions regarding implementation of the program have been taking place between the Department and Utah State University, but that no program has been implemented. Is that correct and, if so, what has caused the delay?

Dr. **Glosser**. That is correct, sir. We are in the process of developing the cooperative agreement that would implement the congressional directive.

Senator **Cochran**. But nothing has been worked out yet; is that correct?

Dr. **Glosser**. I think in principle it has. It is a matter of processing the documents. But the transfer of the funds has not taken place at this time.

Senator **Cochran**. I think that is another example of funds being appropriated for a specific purpose, and the agency not using the money for the purpose intended.

I'm going to submit these questions in writing and let you have a chance to respond in writing to the committee, and with a copy to Senator Garn. Would you be able to do that in a prompt way?

Dr. **Glosser**. Yes, sir. Thank you.

MIGRATORY BIRD PROBLEMS

Senator **Cochran**. I have some questions that I am going to submit to you concerning a problem that we have in our State, and maybe some other States, too, relating to the aquaculture industry and caused by migratory birds. The cormorant has become a serious problem for many of our catfish producers in the State of Mississippi.

I am going to submit these and ask you to give us some guidance as to what we may be able to do consistent with the law. This is again an animal damage control issue that has become quite serious in our State.

SEAFOOD INSPECTION

The only other issue that I was going to bring up this morning was about seafood inspection. You know we are trying to get legislation put together in the Agriculture Committee to authorize the Department to engage in seafood inspection. I am aware that a question has already been asked concerning that issue.

Can we count on the Department supporting our initiative, so that the Department of Agriculture could be the lead agency in ensuring a safe and wholesome supply of fish and seafood for America's consumers?

Dr. **Crawford**. As you know, we have had testimony on a number of bills in Congress where we and two other departments of government have testified with respect to fish and fish product inspection. At this time we do not have the authority and we are not engaged in fish inspection.

However, I can assure you if that assignment is made to us through the legislative process we will certainly take it and do the same quality job we do with meat and poultry inspection.

Senator **Cochran**. Specifically, I am curious to know whether or not you feel the capability exists or could be developed in the Department to do a credible job that would instill confidence on the part of the consuming public?

Dr. **Crawford**. If the authority is granted us, Senator, I can assure you that we will do the same sort of developmental system we did with poultry inspection in the late 1950's and the other authorities that have come our way. I cannot say at this point exactly how long it would take in order to get geared up.

I believe those programs had about a 2-year implementation phase. This one might very well be the same way, but we would have a plan in effect that we would regularly report on, and a program of implementation.

Senator **Cochran**. Thank you very much.

Thank you, Mr. Chairman.

Senator **Burdick**. The Senator from Arkansas.

Senator **Bumpers**. Mr. Chairman, I do not have any bones to pick with anybody here. Dr. Haley, first I want to thank you for a couple of grants that the University of Arkansas got last week, one dealing with grapejuice research in an attempt to find alternate market sources for fresh grape growers.

The other was to fund work for a vegetable co-op called the Great River Road Producer Co-op. We've been trying our best to get farmers in eastern Arkansas to get into the vegetable farming business. It's very tough to do, but it's very profitable if you can do it well and get the market.

But I won't belabor that except to say I think those are meritorious, because they are in my State. [Laughter.]

BRUCELLOSIS PROGRAM

I remember Gerald Ford, in the only show of humor I can ever remember, when he first became President he said he learned as a young Congressman the difference between those very meritorious projects out in Michigan and those boondoggles down in Oklahoma.

I want to say, Dr. Glosser, I am just a little bit concerned about the Brucellosis Program, because that is a program we have worked so hard on in my State and we are just knocking on the door of A status and we want to keep the pressure on.

And as you may or may not know, in our State we have a $1 a head fee, so we have been using our own money to try to enhance our control of brucellosis. It means millions and millions of dollars to us.

But we have one little problem, and that is last year we only got $32,000 for depopulation, and it is our understanding the money is simply being held for this fiscal year. Could you comment on that? We are using our own money, and I am sure the Fed would love for us to do that, but since there is money in the pot for depopulation we would like to get some of it.

Dr. **Glosser**. Senator, you are correct. First of all, I want to commend the State of Arkansas for the fabulous progress that has been made in reducing the incidence of the disease. It is clearly one of the bellwether examples of State-Federal cooperative initiatives.

With respect to the allocation of Federal dollars to the State of Arkansas, comparing fiscal year 1989 to fiscal year 1990 there was a 23-percent increase or a net increase of $323,000. I would like to submit this table for the record.

[The information follows:]

BRUCELLOSIS PROGRAM ALLOCATIONS—ARKANSAS

[In thousands of dollars]

Item	Fiscal year 1989	Fiscal year 1990	Change
Distributable	1,103	1,140	37
Indemnity	2	1	(1)
Depopulation	2	42	40
ADP agreement		100	100
Fee services	300	445	145
Other		2	2
Total	1,407	1,730	[1] 323

[1] Twenty-three percent increase.

Note: Excludes centrally funded items such as central warehouse, Particle Concentration Fluorescence Immuno-Assay test reagents and leasing costs, Department charges, and FSIS blood sample collections.

BRUCELLOSIS DEPOPULATION

Dr. **Glosser**. With respect to depopulation dollars, there was $2,000 in 1989 and $42,000 allocated in 1990.

You are also correct that there are moneys for depopulation under the rapid completion approach that are being held in the regions so they can be directed to those areas where they can have the greatest impact on reducing infection.

Our strategy in the Rapid Completion Program is really three-pronged: depopulation, increased whole herd vaccinations, and in-depth epidemiology in hot spots. This is really the keystone to the Rapid Completion Program.

So these moneys that have been earmarked for rapid completion are held at the regional level and worked out with the State veterinarians to apply those funds in the most strategic areas. So, limited moneys are available.

Senator **Bumpers**. Well, as you point out, this money is being held at the regional level. I know ours is being held in Fort Worth.

Dr. GLOSSER. That is correct, sir.

MIGRATORY BIRDS

Senator BUMPERS. Well, I will check further into this, and when we come to the markup of this bill maybe we will have our problem resolved by then.

One other problem, and that is the migratory bird problem for aquaculture which Senator Cochran alluded to. We are not nearly as big in the catfish farming business as Mississippi, but migratory birds do not know borders and they like catfish better than I do, and that is really saying something.

As you know, we have to get a permit from Fish and Wildlife to control cormorants, egrets, and herons, and the process is a difficult one. Now, I can tell you what our farmers are doing. They are killing those birds, and that would be the most logical conclusion to reach for any farmer who sees his crop being wasted by birds that he does not have anything against, but are threatening his livelihood.

Is there any research going on anywhere that you might know of to deal with this problem, because it is only going to get worse, as I see it?

Dr. GLOSSER. That is a very good statement. There is no easy solution. We are doing methods development work in the State of Mississippi, where of course there is a great deal of effort and concern with depredation on aquaculture.

I have personally been involved with the Director of the Fish and Wildlife Service in an attempt to streamline the permitting process so it can be much more rapid than it is. Our discussions will have to be reinforced at every level.

We want to do nothing that violates the Migratory Bird Treaty Act, and yet we must realize that there has to be prompt, judicious assessments at the field sites by our animal damage control specialists and ideally Fish and Wildlife Service officers at the local control will promptly issue needed permits.

There has been a reluctance by the Fish and Wildlife Service to streamline the process, and I can understand that position. I do not have the answer to the long-term research question as to how we could get the cormorants and the pelicans and others to avoid eating catfish.

Basically this is a situation where you have provided a natural source of food for the cormorant, that was a species in jeopardy at one time. Now the numbers have just exploded.

Senator BUMPERS. You know, out West where there is a lot of mining that goes on, they have this new mining process called heap leach mining, where they use cyanide, which filters down through a big giant mound of ore. The gold attaches itself to the cyanide and it comes out these ditches on the side and then runs into a great big pool.

And obviously this cyanide is very lethal, and a lot of migratory birds were landing on it and drinking the water and promptly dying. So what they have been doing out there is putting nets over these ponds so that the birds cannot land on it and cannot get to the pond.

But if you happen to be a pretty good-sized catfish farmer with hundreds of acres in maybe 1,000 separate ponds, that becomes prohibitively expensive. So that is not really a viable option for us.

I saw one of those primetime news shows recently which covered this issue, and they had farmers on there saying that they were losing as many as 25 percent of their fingerlings. Of course, they do not do a lot of damage to a 3-pound catfish, but they sure do love those fingerlings when you first put them in.

So obviously this is of considerable concern to Senator Cochran and me, and we will stay on top of it and hope you will, too.

Dr. GLOSSER. I will give it my undivided attention. I hope we come up with viable and workable options.

Senator BUMPERS. Thank you, Mr. Chairman.

Senator BURDICK. Senator Grassley.

Senator GRASSLEY. Thank you, Mr. Chairman.

I am sorry I was not here for your testimony because I had a meeting before the Small Business Committee, of which I am a member. And I would like to welcome all of you to this committee, particularly you, Mrs. Smith. I have appreciated your efforts to keep your door open to my constituents. I know Iowans appreciated visiting with you and appreciated your willingness to meet with them on the question of administrative costs of the pseudorabies program.

And I also know that you were in Iowa in January and I have received good reports about that meeting. They appreciated your coming.

I think that we need to have more communication, because quite frankly I think that you are facing some serious problems with agencies under your jurisdiction. I have been quite outspoken on a number of issues involving the swine industry. Iowa's producers have been in my office a number of times just this year, since the first of the year, with complaints about their ability to work with agencies under your purview.

I recognize differences may develop with individual groups that are difficult to resolve, and if the questions raised by my Iowa pork producers and their association leaders were the only questions being raised then I would simply ask you today to try and work out these problems.

Unfortunately, I am hearing a variety of different complaints from a variety of sources, and this leaves me concerned and quite skeptical of the Department's excuses that I have heard in the past. I have a few questions that I would like to ask you this morning and a number of others that I will probably submit for the record, because I do not want to take up all the time of my colleagues.

PSEUDORABIES

To begin with, I have some questions about the Department's budgeting procedures. Iowa State University helped develop a 10-year plan to eradicate pseudorabies nationwide. The original funding schedule for this program called for $2.8 million in the first year, $4.5 million in the second year, and $6.8 million in the third year.

This schedule had to be revised last year because of the Federal Government's lack of commitment to the program. Thus, the industry's third-year request is now $12.7 million.

Two years ago at this hearing, I asked Dr. Glosser—I see he is here and I thank you for being here—I asked him at that time if the pseudorabies program had the Department's full support, and at that time I was very satisfied with his answer. I look back now and I think I probably should have read Dr. Glosser's remarks more carefully, actually studied them, rather than just heard them.

Although he told me at that hearing that this program had their full support, I am finding now that full support means in words and not much in dollars. The Department's request of $3.075 million is preposterous from my standpoint in relationship to what we are spending on other diseases and what we are losing each year to the pseudorabies disease.

What I would like to know is whether it is the Department's commitment that is lacking or whether these difficulties might respond from the interaction that you have with OMB and, quite frankly, the considerable control that OMB has over your budget? That is my first question.

Ms. Smith. Before I ask Dr. Glosser to further comment on your question, let me just say that, No. 1, you do have a commitment from me to address the pseudorabies issue. You were not in the room; we talked a little bit about APHIS' manner of presenting their budget this year.

To be very frank with you, I am learning more every day about the budgeting of all of my agencies and the manner in which they do budget for various responsibilities that they are charged with. There seems to be a tremendous amount of misunderstanding at this point of the way that APHIS has previously budgeted their functions and their programs versus the way that they are budgeting for this program now and in 1991.

Before you came into the room, I made the commitment that I personally would continue to evaluate this process. There is total misunderstanding of the fact that APHIS budgets differently than what has been perceived that they budget. The question becomes whether or not that process is the right process, whether or not it is accurate, whether or not it is best to utilize the functional resources that they have for each demand on programs that they are going to have to fund.

I will sit here right now and tell you I am neither sold or neither am I for something or against it at this point. I have got to see how it works. It is obvious that the perception in the country has been that if you were to allocate $3.7 million or if you were to allocate $12.3 million, the producers in the country think they should get into the program all $12.7 or $12.3 million or whatever.

In essence, it takes something to run this agency. The question becomes at this point is it taking too much to run the agency? Is the centralized system they have put into place wrong at this point? And they are doing an analysis on it. Whether or not that is right I cannot tell you because I have not seen any breakdown on it.

Like I say, we are looking at it. We did ask them exactly, out of the dollar how much it was costing to run APHIS. I submitted that figure this morning as 16 cents.

Yes; we do have, the second part of your question. Yes; we do have very strong input, to put it mildly, from OMB as to what our budget figures will be.

I would like for Dr. Glosser to just basically walk through the question explicitly about the misunderstanding of the 10-year plan, being the first year of $2.8 million, the second year $4.5 million, the third year $6.8 million, in pseudorabies.

PSEUDORABIES FUNDING

Senator GRASSLEY. OK, he can do that. Can you, before he does that—I need to know, did the Veterinary Services Branch of APHIS request this year for pseudorabies—what was the amount that was requested?

Ms. SMITH. I will let Dr. Glosser answer that.

Senator GRASSLEY. OK. And in that process, I want to know, was this request left unchanged by APHIS when it was submitted to the Department's budget office? And what was the final Department of Agriculture request to OMB for this program?

Dr. GLOSSER. Senator, the agency request for pseudorabies for fiscal year 1991 was $7,893,000.

Senator GRASSLEY. $7,893,000.

Dr. GLOSSER. Yes, sir.

Senator GRASSLEY. OK.

Dr. GLOSSER. The Department's allowance for the program was $3,052,000.

Senator GRASSLEY. OK, let's back up. The Veterinary Service within APHIS requested $7.8 million?

Dr. GLOSSER. Yes, sir.

Senator GRASSLEY. And APHIS?

Dr. GLOSSER. We presented that same amount to the Department.

Senator GRASSLEY. OK, and was that request left unchanged by APHIS when it was submitted to the Department's budget office? You said yes?

Dr. GLOSSER. Yes, sir.

Senator GRASSLEY. OK, and then?

Dr. GLOSSER. The Department forwarded to OMB the request for pseudorabies of $3,052,000. The OMB passback, what is in our budget, is $3,075,000.

Senator GRASSLEY. OK. There is no doubt that Congress has a responsibility to fund this program, as we see it, and I do intend to urge my colleagues here in the committee to increase the level of funding for this program. But the main point is that this is a cooperative program, cooperative in the strictest sense, because the program is funded by producers, States, and the Federal Government, but also cooperative in the sense that Congress and the administration have a responsibility to coordinate this program actively.

As a followup to an earlier hearing, I would like to ask if the Department has ever considered modifying their budget process to better reflect core services and administrative costs so it stands right out there, you know exactly what it is?

Dr. **Glosser.** Senator, that is what I addressed in my earlier testimony this morning. It has always been a concern of mine that moneys were allocated to the field and to the regional level, have had to be used for core functions and for program and administrative. I certainly applaud the Assistant Secretary and I am committed to work with her and the Congress. If there is a better way to do this, I want to know it.

What we have attempted to do in order to deliver first-class support to the field, was to identify many of these costs at the source to achieve economies of scale and accuracy in accounting. And I went through the laundry list which I am going to, with the chairman's permission, include into the written record, those costs we finance at the source, rather than distribute them to the field and then have to reallocate them for such things as training or computer acquisitions.

CENTRALIZED COSTS

Senator **Grassley.** Well, specifically on that point, then, do you consider centralization costs for purchases, storage, and distribution to be administrative or program costs?

Dr. **Glosser.** I consider them to be program costs, because we are providing a newer, a fresher inventory at a reduced cost, that will allow more dollars to get to the field, which is my objective. The supplies purchased and stored at the central warehouse are used in the field programs. They no longer have to be purchased from local allocations.

Senator **Grassley.** Define for me then what you consider administrative costs?

Dr. **Glosser.** Administrative costs are those costs to support the Office of the Administrator, Legislative and Public Affairs, and Management and Budget. I would like to submit for the record more detail about what the administrative cost is. I have given you two or three general areas.

Senator **Grassley.** OK, I will let you submit that for the record.

[The information follows:]

Distribution of Agency Level Support Costs

Administrative support costs for the Office of the Administrator, the Legislative and Public Affairs Staff, and Management and Budget are assessed to each budget line-item on a proportional basis.

Central program support costs for Policy and Program Development, and Recruitment and Development operating expenses are also assessed to each line-item on a proportional basis. The cost of specific Agency training programs conducted by Recruitment and Development are assessed to Agency Units based on Unit participation or expected benefits. For example, the cost of Operation Jumpstart, a clerical training program at headquarters, is assessed to each Unit based on the number of secretarial/clerical positions at headquarters.

Central Services, which include such activities as the Safety and Health Council, headquarters shuttle, security, labor, and copier maintenance services, computer room operations, Management Support System, and furniture systems, are assessed to each APHIS Unit based on the distribution of either total or headquarters staff-years.

Department Charges, which include such activities as the National Finance Center, Telenet, worker's compensation, unemployment compensation, postage, executive correspondence, FTS, and central supply are assessed to each APHIS unit based on either actual use data or staff-years.

WAREHOUSING AND PROCUREMENT

Senator **Grassley**. With programs such as pseudorabies, brucellosis, and scrapies, approximately what percentage of the funds we appropriated are delivered as actual services and not warehousing and procurement?

Dr. **Glosser**. What percentage for services and not warehousing?

Senator **Grassley**. What percentage of the funds that we appropriate are delivered as actual services and not in the categories of warehousing and procurement? Do my terms cause you——

Dr. **Glosser**. We may have a different definition of terms. I would like to respond for the record as to how we define terms such as overhead, program support, and administrative support. Agencywide, 84.2 percent of appropriated funds are for delivery of program services.

The central warehouse is an issue that has come to great disfavor in 1989 and 1988. It was misunderstood by our employees and by our State counterparts. But we have found that with the central warehouse, our cost and capital investment in maintaining inventory is much less than to maintain supplies in 50 State warehouses. There were many practical reasons that went into our decision to do this.

With perishable supplies like glue that have a limited shelf life, we can keep a fresher stock and send it directly to the person when it is needed rather than store it in 50 State warehouses.

Prior to the central warehouse, in order to provide storage at each field location we often had to pay the rate for office space and not warehouse space. I wanted to eliminate that disparity. I thought it was too luxurious a cost for warehousing, to pay the office space rate. But it was necessary at the time because the space was right next to our area offices where the program administration was located.

Shipping costs from the centralized point to the 50 States are about the same as the old system. Another important point is that we can maintain an inventory that is fresher, more current, and more responsive.

Senator **Grassley**. Well, what about listing these expenditures separately in your budget request? Would this provide a more accurate picture to Congress and the public about the effectiveness of the program?

Dr. **Glosser**. It is my feeling, yes, it would, Senator, because there should be no surprises, there should be no hidden costs. This in my career is the first budget that I can understand where every dollar is going.

Coming from the field, I would like to see as many dollars out there as possible doing the job. But I also feel that whether we distribute costs such as training and recruiting to 50 areas or centralize them, I think we need standard training and recruiting efforts, not 50 different kinds of efforts. We still need these support functions—they are essential to the success of the programs.

I wanted to divest the responsibility for some of those functions from the field level so that their focus can be on the delivery of program services. I think that the centralization will allow us to identify at the source what it is costing us to provide support to the field.

CANADIAN MEAT INSPECTION AGREEMENT

Senator **Grassley**. I think I am going to have to go on because I wanted to ask the FSIS some questions. On February 26, Secretary Yeutter signed an agreement with the Canadian Minister of Agriculture to begin a 1-year trial period of harmonized meat inspection between the United States and Canada.

I understand that this new program will eliminate border inspection of Canadian meat entering the country. The Canadians themselves have complained about their meat being rejected at our border inspection facilities, which makes one wonder if they have difficulty meeting our current inspection standards.

We must make sure that we provide only safe and wholesome products to the American consumer. That is a given, obviously. But to better evaluate this food safety issue, could you provide me with details on the number of drug residue violations found in Canadian meat shipments during the last 3 years? And I would also be interested in knowing if there are other frequent problems with Canadian meat that have resulted in rejections.

Statistically you might have to submit that in writing, but I would like to have an overview at least right now.

Dr. **Crawford**. OK, we will submit that in writing.

[The information follows:]

RESIDUE VIOLATIONS - 1988

Country	Est.	Compound	Action/ Tolerance Level	Result Level	Sample Date	Mail Date	Result Date	Date POO Rec'd
Australia	1618	Sulfamethazine Sulfathiazole	00.10 00.10	00.27 00.23	10/20	10/20	01/04	01/13
Honduras	9	Chlordane	00.30	01.03	01/24	01/25	02/05	02/17
Denmark	25	Sulfamethazine	00.10	00.19	02/19	02/22	03/02	03/09
Canada	10	Sulfamethazine	00.10	00.22	02/05	02/10	03/11	03/15
Denmark	29	Sulfamethazine	00.10	00.18	03/22	03/22	03/29	03/30
Canada	330	Sulfamethazine	00.10	00.89	03/15	03/22	03/30	03/30
Denmark	31	Sulfamethazine	00.10	00.15	03/25	03/28	04/07	04/08
Denmark	54	Sulfamethazine	00.10	00.13	04/06	04/06	04/18	04/18
Denmark	29	Sulfamethazine	00.10	00.34	04/21	04/22	04/27	04/28
Honduras	7	Chlordane/ Heptachlor Epoxide	00.30	02.40 00.39	04/07	04/11	04/27	04/28
Canada	199	Sulfamethazine	00.10	00.17	04/15	04/15	04/28	04/29
Canada	87	Sulfamethazine	00.10	00.53	04/29	05/03	05/10	05/11
Denmark	29	Sulfamethazine	00.10	00.13	05/04	05/05	05/12	05/13
Canada	270A	Sulfamethazine	00.10	00.24	04/29	05/02	05/18	05/19
Canada	4	Sulfamethazine	00.10	00.11	05/09	05/16	05/18	05/25
Honduras	4	Benzene Hexachloride	00.30	00.50	05/10	05/11	05/26	05/27
Denmark	319	Sulfamethazine	00.10	00.22	05/25	05/26	06/03	06/07
Canada	147	Sulfamethazine	00.10	00.21	06/06	06/06	06/15	06/17
Canada	191	Sulfamethazine	00.10	00.90	06/06	06/06	06/15	06/17
Canada	147	Sulfamethazine	00.10	00.29	06/13	06/20	07/05	07/07
Canada	87	Sulfamethazine	00.10	00.97	07/07	07/12	07/18	07/19
Canada	87	Sulfamethazine	00.10	00.20	07/13	07/18	07/29	08/01
Denmark	57	Sulfamethazine	00.10	02.70	07/22	--	08/04	08/11
Canada	9	Sulfamethazine	00.10	00.19	07/18	07/21	08/11	08/18
Canada	10	Sulfamethazine	00.10	00.14	08/09	08/16	08/30	08/31
Canada	87	Sulfamethazine	00.10	00.12	08/19	08/?	08/29	09/02
Canada	4	Sulfamethazine	00.10	00.16	08/18	08/23	09/01	09/02

Australia	1272	Chloramphenicol	.0	00.17	08/09	08/22	09/09	09/27
Australia	239	Chloramphenicol	.0	00.26	08/22	08/30	09/09	09/27
Denmark	339	Sulfamethazine	00.10	00.46	09/07	09/08	09/23	09/28
Canada	147C	Sulfamethazine	00.10	00.21	09/24	09/26	10/03	10/04
Canada	35E	Sulfamethazine	00.10	00.46	09/11	09/14	10/05	10/05
Canada	147C	Sulfamethazine	00.10	00.24	09/29	10/03	10/06	10/07
Canada	199	Sulfamethazine	00.10	01.71	10/05	10/11	10/11	10/21
Canada	10	Sulfamethazine	00.10	00.13	09/23	--	10/03	10/25
Canada	309	Sulfamethazine	00.10	00.11	10/07	--	10/18	10/25
Canada	87	Sulfamethazine	00.10	00.12	10/25	10/27	11/02	11/04
Canada	147	Sulfamethazine	00.10	00.35	10/14	10/17	11/09	11/15
Canada	147	Sufamethazine	00.10	00.13	11/08	11/11	11/21	11/23
Denmark	85	Sulfamethazine	00.10	00.36	11/02	11/03	11/18	11/23
Canada	199	Sulfamethazine	00.10	00.31	11/16	11/18	11/29	11/30
Canada	309	Sulfamethazine	00.10	00.16	11/30	11/30	12/07	12/12
Australia	16	Sulfamethazine	00.10	00.34	12/01	12/02	12/07	12/15
Denmark	53	Sulfaquinoxaline	00.10	00.12	12/14	12/14	12/19	12/20
Denmark	51	Sulfamethazine	00.10	00.30	12/16	12/16	12/28	12/29
Denmark	67	Sulfamethazine	00.10	00.30	12/16	12/16	12/28	12/29

Source: Program Development Division
International Programs
December 30, 1988

RESIDUE VIOLATIONS - 1989

COUNTRY	EST.	COMPOUND	ACTION TOLERANCE LEVEL	RESULT LEVEL	SAMPLE DATE	MAIL DATE	RESULT DATE	DATE PDD REC'D
Canada	147C	Sulfamethazine	00.10	00.50	12/19	12/20	01/12	01/13
Canada	66	Sulfamethazine	00.10	00.22	12/30	01/02	01/13	01/17
Australia	16	Sulfamethazine	00.10	00.14	02/08	02/09	02/15	02/16
Ireland	P319	Sulfamethazine	00.10	00.52	02/16	02/16	02/24	02/27
Canada	394	Sulfamethazine	00.10	00.32	02/16	02/17	03/03	03/03
Ireland	P319	Sulfamethazine	00.10	00.17	03/27	03/27	03/31	04/03
Canada	448	Sulfamethazine	00.10	01.28*	05/02	05/02	05/12	05/16
	448	Sulfamethazine	00.10	01.29	05/02	05/02	05/08	05/16
Canada	4	Sulfamethazine	00.10	00.13	05/01	05/08	05/26	06/14
Italy	374L	Sulfadimethoxine	00.00	01.53*	09/29	09/29	10/11	11/06
		Sulfamethazine	00.10	00.17	09/29	09/29	10/11	11/06
Italy	58L	Sulfadimethoxine	00.00	00.15*	09/29	09/29	10/11	11/06
		Sulfadimethoxine	00.00	00.15	09/29	09/29	10/11	11/06
Italy	58L	Sulfadimethoxine	00.00	00.18*	10/16	10/23	11/06	11/06
		Sulfamethazine	00.10	00.15	10/16	10/23	11/06	11/06
anada	270	Sulfamethazine	00.10	00.28	11/27	11/28	12/08	12/12
Italy	586L	Sulfadimethoxine	00.00	00.59	12/07	12/07	12/14	12/18
Switzerland	205	Sulfamethazine	00.10	00.13	12/06	12/06	12/19	12/22
Italy	550L	Sulfamethazine	00.10	00.60	12/12	12/13	12/28	01/04
Canada	423	Sulfamethazine	00.10	01.29	12/19	12/20	01/11	01/12

*Results reported as one violation.

Source: Inspection Assignment Branch
Program Development Division
International Programs
February 8, 1990

SUBJECT: Analyzed Residue Data (Samples by Compound) for Canada between 1984 and 1989

1989

Compound	Samples Analyzed	Number of Violations
Antibiotics	498	0
Arsenic	230	0
Benzimidazoles	270	0
Carbadox	217	0
Chloramphenicol	383	0
Chlorinated Hydrocarbons	417	0
Clorsulon	98	0
Cyromazine	114	0
Des/Zeranol	33	0
Ipronidazole	169	0
Melengestrol Acetate	21	0
Organophosphates	121	0
Sulfonamides	602	7
TOTALS:	3173	7

1988

Compound	Samples Analyzed	Number of Violations
Albendazole	78	0
Antibiotics	686	0
Arsenic	150	0
Benzimidazoles	202	0
Carbadox	155	0
Chloramphenicol	257	0
Chlorinated Hydrocarbons	787	0
Clorsulon	63	0
Cyromazine	204	0
Decoquinate	273	0
Des/Zeranol	82	0
Ipronidazole	173	0
Ivermectin	222	0
Melengestrol Acetate	49	0
Organophosphates	123	0
Sulfonamides	3412	26
TOTALS:	6916	26

1987

Compound	Samples Analyzed	Number of Violations
Albendazole	36	0
Antibiotics	502	0
Arsenic	49	0
Benzimidazoles	95	0
Carbadox	84	0
Chloramphenicol	182	0
Chlorinated Hydrocarbons	582	0
Clorsulon	35	0
Cyromazine	24	0
Decoquinate	43	0
Des/Zeranol	22	0
Ipronidazole	107	0
Melengestrol Acetate	4	0
Organophosphates	44	0
Sulfonamides	421	5
Trace Elements	16	0
TOTALS:	2246	5

1986

Compound	Samples Analyzed	Number of Violations
Antibiotics	604	1
Arsenic	53	0
Benzimidazoles	9	0
Carbamates	34	0
Chloramphenicol	528	0
Chlorinated Hydrocarbons	576	0
Des/Zeranol	55	0
Ivermectin	22	0
Levamisole	10	0
Lincomycin	18	0
Novobiocin	18	0
Organophosphates	70	0
Sulfonamides	322	4
Trace Elements	27	0
Tylosin	19	0
Virginiamycin	18	0
TOTALS:	2383	5

1985

Compound	Samples Analyzed	Number of Violations
Albendazole	48	0
Antibiotics	605	0
Arsenic	5	0
Carbamates	42	0
Chloramphenicol	525	0
Chlorinated Hydrocarbons	519	0
Ivermectin	3	0
Livamisole	5	0
Lincomycin	281	0
Novobiocin	281	0
Organophosphates	51	0
Sulfonamides	245	0
Trace Elements	56	0
Tylosin	281	0
Virginiamycin	281	0
TOTALS:	3228	0

1984

Compound	Samples Analyzed	Number of Violations
Antibiotics	219	0
Chlorinated Hydrocarbons	620	1
Organophosphates	37	0
Sulfonamides	50	1
Trace Elements	47	0
TOTALS:	973	2

RESIDUE VIOLATIONS IN CANADIAN PRODUCTS EXPORTED TO U.S.

DATE	COMPOUND	AMOUNT (PPM)	PRODUCT
1981	Chlordane	0.58	Pork
1981	Sulfamethazine	0.20	"
1981	"	0.39	"
1982	Chlordane	1.52	Geese
1983	Sulfamethazine	0.19	Pork
1983	"	0.43	"
1983	"	0.27	"
1983	"	0.28	"
1984	Heptachlor	1.53	Geese
1984	Sulfamethazine	>0.10	Pork
1986	"	0.16	"
1986	"	0.17	"
1986	"	0.34	"
1986	Tetracycline	0.35	Veal
1986	Sulfamethazine	0.16	Pork
1987	"	0.41	"
1987	"	0.22	"
1987	"	0.40	"
1987	"	0.17	"
1987	"	0.24	"
1988	"	0.22	"
1988	"	0.89	"
1988	"	0.17	"
1988	"	0.53	"
1988	"	0.24	"
1988	"	0.11	"
1988	"	0.21	"
1988	"	0.90	"
1988	"	0.29	"
1988	"	0.97	"
1988	"	0.20	"
1988	"	0.19	"
1988	"	0.14	"
1988	"	0.12	"
1988	"	0.16	"
1988	"	0.21	"
1988	"	0.46	"
1988	"	0.24	"
1988	"	1.71	"
1988	"	0.13	"
1988	"	0.11	"
1988	"	0.12	"
1988	"	0.35	"
1988	"	0.13	"
1988	"	0.31	"
1988	"	0.16	"
1989	"	0.50	"
1989	"	0.22	"
1989	"	0.32	"
1989	"	1.29	"
1989	Sulfamethazine	0.13	Pork
1989	"	0.28	"
1989	"	1.29	"

FREE TRADE AGREEMENT

Dr. **Crawford**. The agreement between Minister Mazankowski and Secretary Yeutter was an agreement in principle that we would propose a change in how we deal with each other under the Free Trade Agreement with respect to meat and poultry inspection.

That will, Senator, be the subject of a Federal Register proposal which should issue some time later this month or the first of next month. We will take any and all comments on the wisdom of the proposal, and once these are evaluated, if we get positive comments and if they are substantially in support of a modification of inspection between the two countries under the Free Trade Agreement, then we will propose a 1-year experiment.

RESIDUE VIOLATIONS

With respect to your specific question of how do residue violations differ between the two countries, we will provide that for the record.

[**Clerk's Note**.—The information is on file with the subcommittee.]

Dr. **Crawford**. In general, Canada is within the normally expected residue violation rate for those 40 countries that are privileged to ship meat to the United States. One percent of all samples taken turn out to be violative. That is also about what it is with domestically produced products.

But we will support that with the data from the years 1989 and 1988 and earlier.

[**Clerk's Note**.—The information is on file with the subcommittee.]

Senator **Grassley**. I cannot pronounce these two drugs.

Dr. **Crawford**. One would be Dimetridazole and the other would be Ipranidazole. [Laughter.]

Senator **Grassley**. Yes; thank you, very clear. It would have helped me if you had been on the floor of the Senate with me about 2 weeks ago when I spoke to this subject.

I understand that Canada allows the use of these two drugs to treat its livestock and poultry diseases. We do not in the United States, right?

Dr. **Crawford**. That is correct.

Senator **Grassley**. And it is because of food safety reasons. So I would like to know if your agency has been testing for residues of these drugs, and I am also interested in learning what the USDA is going to do to encourage the Canadians to halt the use of these products, especially if we are going to loosen our border inspection standards with Canada?

Dr. **Crawford**. You are correct in all cases. With respect to the drugs, these two drugs have never been approved for use in swine in the United States and there have been no applications for these uses. One was approved for use in turkeys and did find some swine use under the extra-label provisions of the Food and Drug Administration.

We do test for them, as does Canada. We had a dispute with Canada, as you may remember, some several years ago with respect to the drug Chloramphenicol, and we made representation to Canada that if they wished to continue to trade with the United States then they had to take definitive action against this drug because it was not approved for use in the United States.

That one was in a slightly different category, in that it was not possible to set a safe residue level for Chloramphenicol. We had to have a zero residue level. That was because of international standard-setting that had ruled this drug to be unsafe at any level.

There may be a safe level for Dimetridazole. We are meeting with Canada, and specifically the Center for Veterinary Medicine from the Food and Drug Administration is meeting with Canada, to determine what will be the fate of these drugs in Canada. If they are to be kept on the market, then we have to be assured that the residue testing on both sides of the border continues to ensure public health and safety.

If they elect to take them off the market or further restrict their use, we would want to be involved in a dialog with them.

There is a specific committee set up to deal with that particular problem. We should have some results from those deliberations very soon now, which we will make available to you and to the committee.

Senator **Grassley**. Has our State Department sat in on those meetings or do they monitor them?

Dr. **Crawford**. Those meetings are arranged by the United States Embassy, which is as you know under the State Department. The Foreign Agricultural Service of the USDA also sits in on the meetings. The technical deliberations are generally between the Director of the Center for Veterinary Medicine of FDA and his counterpart in Canada, which is the Director of the Bureau of Veterinary Medicine in their Department of Health.

Senator **Grassley**. If they do not stop the use of that or if we do not approve the use of that for our own producers, we certainly are not going to let that meat in the country after a period of time?

Dr. **Crawford**. Well, the question is, Does the product result in residues in the meat?

Senator **Grassley**. Yes.

Dr. **Crawford**. And can they be detected? And that is what the discussions hinge on. If they do result in residues and/or if the residues can be routinely detected by tests we use, then we would have to take strong action.

Senator **Grassley**. Regardless of finding the residue, if there is a reason they cannot be used in this country and it has got to do with safety, should we not be concerned, whether the product comes from Canada or from our own country?

Dr. **Crawford**. Yes; we should. We should be concerned.

Senator **Grassley**. Well then, why would not just common sense dictate that, you know, if our farmers cannot use it, we are not going to let our consumers consume it from someplace else?

Dr. **Crawford**. With respect to one of the drugs, as I mentioned, it was on the market for a while and then it was withdrawn upon challenge by FDA. I agree with you. We are working so that the drug lists that are approved in each country are the same as the drug list here.

But what we have to do, at least in the immediate short term, is be certain there are no residues of these products in the meat and also that we have an effective test for dealing with it. So we are concerned and we have a constructive dialog going on, on a fast time interval, with Canada.

ADC FUNDS FOR IOWA

Senator **Grassley**. This will be my last question and then I will submit the rest for response in writing. Iowa is not tops in the number of sheep we produce, but we are the top in the number of producers we have. And we also have a lot of losses from dogs and coyotes—probably more than a lot of States have.

Yet, in spite of these losses, Iowa ranks 46th in the amount of funding received through the Animal Damage Control Program. I would like an explanation as to the current distribution system which provides 46 percent of the funds within this program to three States in fiscal year 1989.

Dr. **Glosser**. Senator Grassley, this is under the APHIS Animal Damage Control Program. These dollars are to be cost-shared with the States and industry under cooperative agreements. At the present time we have no cooperative agreement with the State of Iowa and therefore are unable to participate at any higher level of funding.

The States that you are referring to at the top end, have had cooperative agreements with APHIS since 1931.

Senator **Grassley**. That is my people's fault?

Dr. **Glosser**. We are expected to enter into cooperative agreements which are, ideally, 40 percent Federal, 60 percent State. There are no State funds in Iowa at this time earmarked for that.

We acknowledge your problem and know the census of your sheep and the sheep producers.

STATE DISTRIBUTION OF ADC FUNDS

Senator **Grassley**. Well, what is the explanation, though, that 46 percent of the funds go to three States?

Dr. **Glosser**. The share is based on the amount of funds that either the county, State, or industry shares in the cooperative agreements.

Senator **Grassley**. You are saying they put up more money?

Dr. **Glosser**. They put up more money, yes, sir.

Senator **Grassley**. And they automatically qualify as a result of that?

Dr. **Glosser**. The tradition at the outset of this program in the early thirties and by the ADC Act of 1931 is to enter into cost sharing with the industry and the States, yes, sir.

Senator **Grassley**. Thank you all for your cooperation.

Thank you, Mr. Chairman.

SHELLFISH

Senator **Burdick**. This is for anyone who wants to answer. Is FSIS currently equipped to monitor the water quality of shellfish growing areas or to administer the national shellfish sanitation program now underway?

Dr. **Crawford.** Mr. Chairman, we are not currently equipped to deal with either of those problems. As I mentioned earlier, were we to be assigned the authority we would certainly have to have an implementation phase when we would deal with those specific problems and incorporate them into other programs.

Senator **Burdick.** In other words, the answer is no, you are not equipped?

Dr. **Crawford.** The answer is no, we are not equipped.

SUBMITTED QUESTIONS

Senator **Burdick.** This concludes today's hearings. Thank you for your testimony. Additional questions will be submitted for written response by the following Senators: McClure, Garn, Cochran, Grassley, Kasten, Burdick, and Harkin. We ask you to respond to them within 5 days if possible.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

ANIMAL AND PLANT HEALTH INSPECTION SERVICE

QUESTIONS SUBMITTED BY SENATOR BURDICK

GRASSHOPPER

Question: Is APHIS living up to its responsibility to control grasshoppers on federal land?

Answer: Yes, we have responded every time we have been asked to treat Federal land, and we have not had to ask the managing agency to contribute toward the cost of the program. However, we do not treat Federal land unless the managing agency requests that we do so. In addition, there are locations where we are unable to treat federal land because of regulations protecting endangered and threatened species.

Question: I understand that land in the CRP may be a big host to grasshoppers. What work are you doing on this land?

Answer: We provide technical assistance when asked to do so. This technical assistance consists of providing information on timing of control, making suggestions for planning and organizing local control programs, and providing information on new control methods specific to large scale operations. We are currently reviewing our authority and responsibility for treating CRP land to ensure that our procedures are consistent and biologically based.

Question: Both the House and Senate reports encouraged you to cooperate in local cost sharing on other than rangelands. Are you doing so, and in what form?

Answer: We are currently reviewing our authorities and capabilities for cost sharing on land other than rangeland.

Question: How much money remains in the grasshopper contingency fund?

Answer: Approximately $7.4 million is available.

Question: What is the status of the grasshopper IPM project in North Dakota and Idaho? What is the funding for this project in 1989, 1990, and 1991?

Answer: We are continuing our survey plots and treatment plots. We are localizing our treatment in small "hot spots," which is the method preferred by our cooperators. If necessary, we will expand treatment to larger applications. We are continuing to conduct research on biological control agents, but have not yet found an effective biological control agent for grasshoppers. Funding for the entire national IPM project has remained at $3 million per year in 1989, 1990, and 1991.

BLACKBIRD CONTROL

You have been working with the people in North Dakota to control blackbird depredation. I understand that this effort will now take a focus on controlling cattail habitat in order to reduce desirable blackbird nesting and roosting grounds.

Question: Could you please elaborate on this project?

Answer: Even though hazing is not very efficacious, it is still the most effective method of managing blackbird damage currently available to the program. In addition to hazing during FY 1989, there was considerable interest in the benefits of cattail management as a means of reducing habitat and thereby reducing concentrations of blackbird populations. ADC assisted with field tests to develop this technique. The National Sunflower Association and the North Dakota Department of Agriculture are developing a cattail management plan for FY 1991. Through a recently established cooperative project with North Dakota State University (NDSU), we are directing our research efforts at developing cost effective methods of reducing cattail vegetation to the point where it will no longer be attractive as a blackbird breeding or roosting site. Along with habitat alteration activities, we are simultaneously measuring the effects on the distribution and magnitude of sunflower losses near treated marshes. Many of the wetlands in North Dakota sunflower growing regions, have become choked with dense stands of cattail vegetation. This type of habitat is ideal for both breeding blackbirds and harboring large roosting congregations during the sunflower growing season. We plan to continue the hazing program during FY 1991. Using both techniques will give us additional flexibility in managing blackbird damage to sunflower crops.

Question: Does it have the support of other federal agencies as well as farmers?

Answer: ADC will continue to provide technical assistance and support to the cattail management plan being developed by the National Sunflower Association and the North Dakota Department of Agriculture. The Plan has the interest and support of the U.S. Fish and Wildlife Service (FWS), North Dakota Game and Fish Department, Farm Bureau, Stockman's Association and local farmers. This research project relies on the cooperation of private farmers who allow us to conduct work in their marshes and fields. They recognize that most of the severe sunflower losses occur near marshes with dense cattail stands. The FWS also recognizes that these degraded marshes have reduced value as wetland habitat for other wildlife species. In particular, they are concerned about the extremely low waterfowl production in these marshes. We are continuing to communicate with various interests in the FWS, including researchers and wetland managers, and they are supportive of our efforts to develop improved management strategies for these important wetland resources.

Question: How much money will you spend on blackbird control in 1991 and how does that compare with 1990? Will the cattail control project come at the expense of the blackbird hazing project?

Answer: ADC will spend $368,000 in appropriated funds on blackbird control in FY 1991, the same was spent in FY 1990. At present, ADC has no plans to spend appropriated dollars on the cattail project other than to provide technical assistance.

GRAMM-RUDMAN-HOLLINGS CUTS

In both the Senate and House reports, the method that the department is to use in making cuts under the budget acts are specified. You are to apply any percentage reduction required by the Gramm-Rudman-Hollings budget act to all items specified in the explanatory notes that you submit to us. However, it does not appear to me that you followed this directive. The overall cut for APHIS salaries and expenses was 1.37 percent. However, I note that for several specific programs, the cut is considerably higher.

For example, the following programs were cut:

Gypsy Moth	15.45 percent
Imported Fire Ant	15.36 percent
Pink Bollworm	23.41 percent
Russian Wheat Aphid	10.20 percent

Question: Why isn't each program, project, and activity cut by the same percentage amount as required by law?

Answer: We have taken the same percentage from each line-item for Gramm-Rudman-Hollings (GRH) sequestration. The confusion arises because we have also transferred a portion of each plant disease and pest control line-item to create the new plant methods development line item. This new line-item will fund the same methods development activities. The differences for each of the programs given in your example are shown in this chart. The information follows:

FISCAL YEAR 1990 BUDGET
($000)

Program	1990 Pest Control	Sequester Amount	1990 Post-Sequester	Transfer to Plant Methods	Revised 1990 Estimate
Gypsy moth	5,442	74	5,368	-766	4,602
Imported fire ant	5,000	68	4,932	-699	4,233
Pink bollworm	1,700	23	1,677	-375	1,302
Russian wheat aphid	1,000	14	986	-89	897

BIOLOGICAL CONTROL

You propose an increase of $1,862,000 for biocontrol and indicate that leafy spurge and the Russian wheat aphid receive substantial emphasis under this program.

Question: What progress are you making on leafy spurge control?

Answer: In FY 1989, APHIS spent $1 million on the biological control of leafy spurge. APHIS supported the Agricultural Research

Service and the Commonwealth Institute of Biological Control (CIBC) in foreign collection and introduction of biocontrol agents. In FY 1989, a total of 31,000 predators were shipped and released in 10 states. APHIS will provide $1.5 million to the program in FY 1990.

Question: Have you developed new control methods?

Answer: In the past year, APHIS has been working with Agriculture Canada on foreign collection and introduction of approved biocontrol agents. Now that we can utilize Canada's already approved species, the waiting period for quarantine and screening of new species has decreased. We are now able to introduce biocontrol agents quicker than when we were relying on agents from overseas. New and improved laboratory techniques have helped to increase our rearing and release capability. APHIS is also considering experimenting with several IPM project plots. Biological control will be emphasized in these experiments.

Question: Are they being used?

Answer: Yes, the new and improved laboratory techniques for rearing and releasing predators of leafy spurge are in use now and have doubled our production at our Mission, Texas, laboratory. The IPM experiments are not being conducted presently, but are being considered for the near future.

Question: To what extent are you coordinating your activities with recommendation of the National Russian Wheat Aphid Technical Advisory Group?

Answer: APHIS is responding as a key player for the implementation of biological control in the National Russian Wheat Aphid Integrated Pest Management Program. This program was developed by the National Russian Wheat Aphid Technical Advisory Group (NRWA-TAG). NRWA-TAG has been replaced by the National Russian Wheat Aphid Steering Committee as directed by Congress. Members of the steering committee consist of people from USDA agencies, grower organizations, state agencies, and the industry. We are coordinating our activities to a great extent regarding the recommendations of the committee. APHIS is conducting foreign exploration, importation, and mass rearing of Russian wheat aphid (RWA) natural enemies for field establishment and distribution. Six species of predators and six species of parasites have been received and are being maintained at APHIS facilities. As a result of the cooperative efforts between APHIS, ARS, and university researchers, releases have totaled 100,000 parasites and 474,000 predators in 14 states. An additional 15,000 parasites and 100,000 predators have also been provided for specific research activities.

Question: Please provide the funding levels for leafy spurge and the Russian wheat aphid (including the amount provided under a separate line item) for 1989, 1990, and 1991.

Answer: I would be glad to provide the funding levels for leafy spurge and RWA. The chart follows (in thousands):

Projects	1989	1990	1991
Leafy spurge	$1,000	$1,500	$1,800
RWA (as included in the Biocontrol line item)	500	1,200	2,400
RWA (separate line item)	0	898	0
	$1,500	$3,598	$4,200

Question: What other projects are included in the biocontrol category and what is their funding breakdown?

Answer: The information follows:

Other Projects in the Biocontrol Line-item
($000)

Other projects	1989	1990	1991
Diffuse and Spotted knapweed	$500	$500	$600
Aphids (ABC project w/o RWA)	468	132	150
European corn borer	650	650	700
Colorado potato beetle	700	750	750
Institute	0	500	944
Alfalfa weevil	500	250	0
	$2,818	$2,782	$3,144

PLANT PROTECTION QUARANTINE NO. 37

You are in the process of publishing rules revising and updating plant protection quarantine No. 37. Part one is to be published in March.

Question: Have you published those rules?

Answer: We are still in the process of revising and updating Quarantine No. 37. At this time, part one has not been published; however, we do expect publication within the next few months.

Question: What is the timeframe for publication of a proposed rule regarding part two? Are you stating that timetable in the publication of part one?

Answer: Part two of the proposal is expected to be published in the Federal Register by spring of 1991. There will be a 60-day comment period and most likely a public hearing. Revisions will be made and the review process will start again. The final publication of part two is expected to be in mid-summer of 1991. This timetable has not been published in part one.

AFRICANIZED HONEY BEE

You have eliminated funding for the africanized honey bee, admitting the fact that you were unable to create a border to prevent the bee from reaching this country.

Question: What type of presence has the africanized honey bee established in this country?

Answer: With the exception of isolated, artificially introduced cases of Africanized honeybee (AHB) detected at ports-of-entry, there is no established presence in the U.S. Initial isolated swarms are expected to arrive in the U.S. during FY 1990.

Question: Do you have a program to deal with it in this country? If so, how are you funding it? What would be the cost?

Answer: The Department is developing a plan. As proposed, the APHIS role would include information dissemination, technology transfer and identification support, monitoring the northern expansion of the AHB front, support for the Texas emergency AHB regulation and establishing a cooperative infrastructure for AHB identification. Other USDA agencies are involved with this effort. We will keep the committee informed of the progress of this plan.

Question: What do you see as the result of having this bee in the country? What are the dangers and risks, and how big are they?

Answer: We are eventually going to have to live with Africanized bees in the environment and it will take extra support for the beekeepers to maintain their colonies with desirable bees. Fees for pollination services would probably rise due to the increased management required to maintain colonies with desireable bees. If U.S. beekeepers are not able to maintain their colonies with desirable bees; however, the impact of AHB would be much greater. There will be significant changes in the availability of bees for pollination because of hazards inherent in transporting hives which have been infested with AHB. Additionally, there are concerns about potential increases in injuries and loss of life resulting from increases in attacks by AHB. If AHB were established in the U.S., honey production could possibly decrease 30 percent, representing an annual loss of $35 million. If there were a 1 percent reduction in bee-pollinated crops would cost consumers about $100 million annually.

FRUIT FLIES

You are requesting $10,431,000 for the Mediterranean fruit fly program. With the outbreaks in California recently, one has to question the feasibility and direction of this program.

Question: Have you got the California situation under control? What are you doing there?

Answer: We are optimistic concerning the Mediterranean fruit fly (Medfly) eradication project in California. The number of sterile insects available to the program has increased. As additional flies become available, the California Department of Food and Agriculture will be discontinuing the malathion applications. If no additional Medflies are detected, we will declare eradication complete by December 1990. The number of wild Medflies being detected is dropping significantly; only two non-sterile flies have been detected within the past month.

In mid-February 1990, the Secretary declared an emergency for the Medfly problem in California and in so doing, transferred $15 million from the Commodity Credit Corporation to the APHIS Medfly program. APHIS is working with the State in eradicating infestations. Sterile fly production and release, aircraft, pilots and regulatory activities are primary APHIS responsibilities.

The current outbreak encompasses approximately 1,100 square miles under quarantine, 400 square miles which receive malathion bait spray treatment and 125 square miles of sterile fly releases, known as SIT. During January and February of 1990, an average of 730,000 sterile flies were released per square mile each week. The program has intensified its regulatory control to eliminate the possibility of artificial spread while it conducts on-going surveys.

Question: Have there been other outbreaks, other than in California?

Answer: No, this year there have been no other outbreaks in the U.S. during FY 1989-1990.

Question: Is the Hawaii facility being used to raise flies for California, or is it being used strictly for the Hawaii program?

Answer: There are currently two sterile fly rearing facilities in Hawaii: the California facility and the Waimanalo facility, which was recently constructed. Both facilities are now producing flies for California's fruit fly eradication.

Question: What is the long-term timetable and cost for fruit fly control in Hawaii? Please show the program by island and type of fruit fly. How do outbreaks like those in California affect this timetable?

Answer: It is premature to develop a timetable and budget for fruit fly eradication programs in Hawaii. The Agency will continue to cooperate with the Governor's Fruit Fly Task Force and cooperate with ARS in conducting pilot tests on the island of Kawai. It will take several years of research and testing before APHIS undertakes a fruit fly eradication program for Hawaii.

Question: What is the status of the Moscamed program in Guatemala? How much money will be spent in 1990 and what is in the budget for 1991?

Answer: The barrier program in Guatemala is not adequately protecting U.S. and Mexican agriculture, and Guatemala would prefer an eradication program to a barrier program. Guatemala will not contribute to a barrier program or permit the use of aerial application of malathion. Medfly is reinfesting the area from the barrier to the Mexico/Guatemala border. In FY 1989, 120 medfly outbreaks were sporadically detected in Guatemala near the barrier. Approximately 40 medfly outbreaks have also been detected in Mexico adjacent to the border. The Agency is reassessing the situation.

APHIS will provide $3.1 million to the Moscamed program in FY 1990 and FY 1991.

SCREWWORM ERADICATION

Recently, USDA has been concerned about a screwworm outbreak in Libya, and has requested authority to produce and sell sterile screwworm flies to foreign governments or international organizations.

Question: Have you received that authority?

Answer: Yes, the President has recently signed authorizing legislation to produce and sell sterile screwworm flies to foreign governments or international organizations.

Question: What has been your involvement in screwworm control activities in Libya? Have you produced any flies for use there?

Answer: To date, the Agency has provided technical assistance to the Food and Agriculture Organization of the United Nations which is considering a program in Libya. Screwworm specimens were taken out of Libya by Mexican members of an FAO technical team; APHIS received a permit from the Treasury Department to ship these specimens to North Dakota for verification of mating compatibility. To date, no flies have been produced for the FAO.

Question: I understand that you will sell the flies for use outside the western hemisphere. Is this true? What will be the cost to the U.S. government?

Answer: The Agency plans to sell sterile flies to the FAO and the International Atomic Energy Commission, for use outside the western hemisphere. Revenues generated through the sales will recover all of our costs.

Question: What will be the effect of producing flies for Africa, Europe or Asia on the program in this hemisphere?

Answer: Because we have the capacity at the rearing facility in Mexico to produce more flies than needed at this time, producing flies for other geographic areas will not interfere with the effectiveness of the current program.

BOLL WEEVIL

Question: What are the funding levels for the various boll weevil programs for 1989, 1990, and 1991?

Answer: The information follows:

Boll Weevil Program
(in thousands)

	FY 1989	FY 1990	FY 1991
High Plains	642	728	750
Southwest	2,686	2,261	1,971
Southeast	12,358 1/	9,852	7,095
Total	15,686	12,841	9,816

1/ $6.2 million was transferred from CCC for the Southeast Boll Weevil Foundation.

Question: How much money was borrowed from the CCC for this program? For what purpose? Will it be repaid? When?

Answer: The Secretary of Agriculture authorized a $6.2 million loan from the CCC to be repaid by the Southeastern Foundation over a 4-year period. The funds were used to keep the current boll weevil program operating throughout FY 1989. It will be repaid on the following schedule.

CCC Repayment

FY 1990, August	$500,000
FY 1991, August	1,000,000
FY 1992, August	2,000,000
FY 1993, August	2,700,000
Total	6,200,000

CATTLE TICKS

Question: What are the funding levels of the cattle tick programs in Texas and Puerto Rico for 1989, 1990, and 1991?

Answer: The information follows:

Cattle Tick Funding Levels
($000)

	FY 1989	FY 1990	FY 1991 *
Texas	$4,041	$4,317	$4,460
Puerto Rico	1,787	1,855	0
Total	$5,828	$6,172	$4,460

* Proposed

Question: What progress has been made on the program in Puerto Rico? Is eradication the goal?

Answer: Major program expansion occurred during FY 1989, resulting in program coverage of the entire island. However, the effects of Hurricane Hugo as well as organizational problems have seriously hampered progress and extended the program's timetable for eradication. Under the current management structure, we do not believe that the goal of eradication can be achieved.

SCRAPIE

Question: Will the entire $940,000 increase under miscellaneous plant and animal diseases be used for scrapie work?

Answer: No, approximately $846,000 of the increase represents the scrapie funding. The other $94,000 will be used to cover increased pay cost and operating costs.

Question: What type of work and progress are you making on the scrapie problem?

Answer: Progress continues to be hampered by the lack of an effective diagnostic test and the need for additional research and education. APHIS continues to support applied field projects such as the embryo transfer study being conducted at the Scrapie Investigation Center at Mission, Texas, and the International Sheep and Goat Institute at Logan, Utah.

A sizable infected flock located in Iowa was depopulated in December 1989, for a total indemnity payment of $266,229. APHIS retained 57 animals from this flock for use in applied field projects. Many of the animals taken from this flock and from an infected flock in Michigan were pregnant females which will be used for premises contamination studies and for the embryo transfer study using naturally infected animals.

APHIS continues to be involved in the development of a bovine spongiform encephalopathy (BSE) surveillance system. The Agency is currently having a British-produced videotape on BSE reproduced in quantity so that copies can be provided along with an article on BSE to each of the APHIS Veterinary Services Area Offices and to each of the domestic colleges of veterinary medicine.

After a thorough review of the program, APHIS published a notice in the Federal Register in FY 1989 inviting public comment on a proposal to discontinue the current bloodline scrapie program. In response to those comments, it was decided to conduct a negotiated rulemaking procedure in order to develop a program which meets animal health, industry, and State and Federal Governmental needs. We expect the first negotiated rulemaking meeting to be held in May 1990.

In addition, we are continuing to cooperate with ARS, National Institutes of Health, universities, and private research institutions in efforts to develop a preclinical diagnostic test for the disease. As a result of peer group review recommendations received during FY 1989, we have initiated studies in premise contamination and bioassay procedures.

APHIS is currently pursuing the importation of germ plasm for sheep and goats, as there is no current importation of sheep from countries affected with scrapie. This restriction severely limits the available genetic pool. We are also promulgating a regulation to allow the importation of germ plasm from countries free of foot-and-mouth disease but affected with scrapie.

Question: What is the scrapie budget for 1989, 1990, and 1991?

Answer: For FY 1989, the scrapie budget was $981,000, and for FY 1990 Congress provided $1,085,000. Our proposal for FY 1991. includes $846,000 for this program.

NOXIOUS WEEDS

Question: Please show the types of weeds and funding available for noxious weeds for 1989, 1990, and 1991.

Answer: I would be happy to do so. The chart follows:

Weed/Activity	1989	1990	1991
	(actual)	(estimate)	(estimate)
Hydrilla	$91,528	$100,000	N/A
Common Crupina	132,000	450,000	N/A
Orobanche ramosa	66,000	75,000	40,000
Goatsrue	193,350	170,000	N/A
Salsola vermiculata	8,800	10,000	10,000
Other	33,000	37,000	* 539,000
	$524,678	$842,000	$589,000

* In FY 1991, we plan to use $539,000 to survey for noxious weeds that have been reported in the U.S., and to conduct experiments to estimate the extent and potential distribution of these weeds. The funds will be broken down into the following categories: $75,000 to conduct research on phytotron studies, $50,000 to perform research on bio-studies, and $414,000 for delimiting surveys.

PSEUDORABIES

Question: How many states are involved in the pseudorabies control/eradication program?

Answer: Forty-eight states have established industry eradication committees. At the present time 21 States have been assigned program status and an additional 9 States have applied. Their applications are currently under consideration by APHIS and the National Pseudorabies Control Board. Program managers anticipate that all States will have been assigned official program status by the end of 1990.

Question: How much funding is the industry requesting for its 10 year eradication program? How much money would be needed to accomplish this goal?

Answer: The 10-year plan calls for total funding of $238.1 million. Of this amount, the Federal share would be $84.7 million, the States would contribute $84.7 million, and industry would provide $68.7 million.

Question: How much non-federal money has gone into this program in 1989 and 1990?

Answer: In FY 1989, $7.2 million of non-federal money was contributed to the pseudorabies program. The States and industry have given us no precise figures regarding the amount of money they will contribute in FY 1990. The National Pork Producers Council estimates the amount of non-Federal money from program inception to March 30, 1990, to be at least double the Federal amount.

ANIMAL DAMAGE CONTROL

Question: Please provide for the record the amounts of funding for the various ADC projects as included in the House and Senate reports for the last three years. Also show the amounts included in the 1991 budget for these projects.

Answer: The information follows:

ADC Congressional Directives:
(dollars in thousands)

	FY 1988		FY 1989		FY 1990		FY 1991
	HOUSE	SENATE	HOUSE	SENATE	HOUSE	SENATE	ESTIMATE
Guarding Dog	145	200	225	200	250	250	250
Hawaii Rodent Control	240	240	240	0	240	240	240
Research to Control Deer Damage	200	0	150	0	0	0	0
Beaver Damage Control (MS)	0	0	0	0	100	200	100
Beaver Damage Control (WI)	100	150	100	0	100	0	100
Mountain Beaver (Western States)	200	0	0	0	0	0	0
Registration Maintenance	0	0	0	0	1,500	1,500	1,500
Equipment Acquisition	0	0	0	0	0	0	0
Grackle Control (TX)	300	300	300	0	0	0	0
Blackbird Control (ND,SD)	0	0	0	535	0	368	368
Delta States Operations	0	325	0	325	0	275	275
Control/Maple Sap Pipelines (VT)	0	60	0	65	0	0	0
Arkansas Operations	0	0	0	240	0	240	225
Taste Aversion	100	100	100	100	0	0	0
Sunflower Research (ND)	0	0	0	235	0	300	300
Predator Control (Western Reg.)	0	0	0	500	0	0	0
Technical Assistance (Eastern Reg.)	0	0	0	100	0	0	0
Maine Dep't. of Fisheries	0	0	0	0	0	75	70
Louisiana Wildlife Species	0	0	0	0	0	100	0
Wildlife Management Curriculum	0	0	0	0	0	250	*
ADC EIS	0	0	0	0	0	0	0
DWRC Compliance with GPL & AWA	0	821	0	0	0	0	0
Federal Employment System	0	0	0	0	0	0	0
Subtotal Congressional Directives:	1,285	2,196	1,115	2,300	2,190	3,798	3,428

The FY 1991 amounts are included as part of the overall ADC operational program.

* We are currently working to implement a program with Utah State University. An amount has not yet been agreed to.

Question: Also show a state distribution of ADC funds.

Answer: The information follows:

	1988	1989	1990	1991
ARIZONA	338,080	372,454	389,331	424,000
ARKANSAS	219,828	207,000	266,666	291,000
CALIFORNIA	1,321,988	1,165,202	1,266,770	1,381,000
COLORADO	5,080,018	7,392,664	7,701,947	8,394,000
FLORIDA	300,256	65,000	71,000	77,000
GEORGIA	59,604	73,000	78,500	86,000
IDAHO	1,022,166	782,875	944,723	1,030,000
ILLINOIS	108,886	108,000	79,000	86,000
INDIANA	80,567	59,000	88,000	96,000
LOUISIANA	190,035	240,000	292,666	319,000
MAINE	66,499	68,000	187,000	204,000
MARYLAND/DE/DC	2,806,022	4,372,726	5,290,604	5,765,000
MASSACHUSETTS/CT/RI	29,930	53,000	75,000	82,000
MICHIGAN	77,084	85,150	91,000	99,000
MINNESOTA	656,582	402,804	446,095	486,000
MISSISSIPPI/AL	275,871	229,000	475,367	518,000
MISSOURI/IA	57,665	55,000	72,174	79,000
MONTANA	826,621	800,400	886,542	966,000
NEBRASKA/SD	506,648	278,195	615,006	670,000
NEVADA	573,191	573,389	607,663	662,000
NEW HAMPSHIRE/VT	165,172	180,000	180,000	196,000
NEW JERSEY/PA	177,183	129,000	133,000	145,000
NEW MEXICO	1,000,911	955,615	1,005,100	1,095,000
NEW YORK	164,417	168,000	108,000	118,000
NORTH CAROLINA	88,692	73,000	75,000	82,000
NORTH DAKOTA	568,765	589,811	603,062	657,000
OHIO	339,250	154,000	129,000	141,000
OKLAHOMA/KS	595,098	643,177	678,547	740,000
OREGON	849,358	774,732	860,779	938,000
SOUTH CAROLINA	53,030	59,000	71,000	77,000
TENNESSEE/KY	795,268	250,000	608,000	663,000
TEXAS	2,068,431	1,708,868	1,873,241	2,042,000
UTAH	1,148,479	805,880	1,104,562	1,204,000
VIRGINIA/WV	143,910	131,000	168,000	183,000
WASHINGTON/AK/HI	850,928	514,656	580,599	633,000
WISCONSIN	250,498	276,000	399,600	436,000
WYOMING	845,435	822,675	904,456	986,000
TOTALS	24,702,366	25,618,273	29,407,000	32,051,000

PLANT METHODS DEVELOPMENT

I note that in your explanatory notes you indicate that in 1990 $4,823,000 is for plant methods development. However, in the appropriations reports, we did not appropriate money for this program. Your notes indicate that these activities were previously funded in separate plant protection programs, but they are not specific.

Question: Why does plant methods development show up as a program in 1990 and where did you get the money? Be specific.

Answer: We are proposing the creation of a plant methods development line-item for the FY 1991 budget year. To avoid confusion, we have reported our FY 1990 budget on a comparability basis in the Explanatory Notes to reflect the proposed FY 1991 structure. This line-item consists of methods development activities previously funded in plant disease and pest control line-items. This change is being proposed to make the line item structure more compatible with APHIS' organizational structure and functional responsibilities. Methods development activities are carried out by the Science and Technology unit, and funding the plant methods activities separately under the Scientific and Technical Services heading will clarify management responsibility for the line-item. We would be pleased to provide you with a chart detailing the funding source in FY 1990 for plant methods development work. The information follows:

PROGRAM	FY 1990 ESTIMATE ($000)
Plant Disease & Pest Control	
Agricultural Quarantine Inspection	944
International Programs	7
Pest Detection	157
Plant Protection Programs	
Africanized Honeybee	7
Biocontrol	387
Boll Weevil	114
Golden Nematode	28
Grasshopper	212
Gypsy Moth	766
Honeybee Pests	19
Imported Fire Ant	699
Mediterranean Fruit Fly	387
Mexican Fruit Fly	189
Miscellaneous Plant Pests	49
Noxious Weeds	42
Pink Bollworm	375
Russian Wheat Aphid	89
Witchweed	352
	4,823

SEQUESTRATION

Question: Please provide a table with programs as outlined in the 1990 conference report showing the appropriated level, the post sequester level, the percent reduction, and the 1991 budget request.

Answer: We have tables which present the FY 1991 budget request with the program structure as outlined in the FY 1990 conference report. We sequestered 1.4 percent of each line item. We also have shown the impact of the proposed line item for plant methods development. Our budget proposal consolidates these activities form a number of programs in order to increase efficiency. Our FY 1991 budget request also proposes a program structure along the lines of our mission statement.

The following information shows how the program structure with the FY 1990 Conference report compares to the presentation in the President's budget.

ANIMAL AND PLANT HEALTH INSPECTION SERVICE
FY 1990 Conference Report Program Structure

	CONFERENCE ACTION	FY 1990 BUDGET	PERCENT SEQUESTER	FISCAL YEAR 1991 CURRENT STRUCTURE	PLANT METHODS	PROPOSED STRUCTURE
			(Thousands of dollars)			
PLANT DISEASE AND PEST CONTROL:						
Agricultural quarantine inspection	66,488	65,559	1.4%	75,998	(1,029)	74,969
International programs	2,153	2,124	1.4%	2,262	(8)	2,254
Pest detection	3,928	3,874	1.4%	4,323	(183)	4,140
Africanized honeybee	1,950	1,923	1.4%	0	0	0
Biocontrol*	5,950	5,869	1.4%	7,936	(592)	7,344
Russian wheat aphid	1,000	986	1.4%	0	0	0
Boll weevil	13,135	12,955	1.4%	10,017	(201)	9,816
Citrus canker	0	0	N/A	1,318	(54)	1,264
Golden nematode	800	789	1.4%	838	(30)	808
Grasshopper/Mormon cricket	3,850	3,797	1.4%	6,309	(231)	6,078
Grasshopper reserve fund	5,000	4,932	1.4%	0	0	0
Gypsy moth	5,442	5,366	1.4%	5,711	(834)	4,877
Honeybee pest	375	370	1.4%	522	(20)	502
Imported fire ant	5,000	4,932	1.4%	2,315	(763)	1,552
Mediterranean fruit fly	10,256	10,116	1.4%	10,853	(422)	10,431
Mexican Fruit Fly	1,717	1,694	1.4%	1,952	(207)	1,745
Misc. plant diseases & pests	1,124	1,109	1.4%	1,266	(65)	1,201
Noxious weeds	897	883	1.4%	656	(67)	589
Pink bollworm	1,700	1,677	1.4%	1,419	(409)	1,010
Witchweed	5,281	5,209	1.4%	5,528	(384)	5,144
SUBTOTAL	136,026	134,168	1.4%	139,223	(5,499)	133,724
ANIMAL DISEASE AND PEST CONTROL:						
Animal disease detection	5,394	5,320	1.4%	9,256	0	9,256
Animal health comp. & enforce.	14,694	14,493	1.4%	12,354	0	12,354
Import-export	8,604	8,486	1.4%	9,001	0	9,001
International programs	2,151	2,122	1.4%	2,238	0	2,238
Veterinary biologics	8,641	8,523	1.4%	9,507	0	9,507
Veterinary diagnostics	12,371	12,202	1.4%	14,798	0	14,798
Brucellosis	62,786	61,927	1.4%	64,553	0	64,553
Cattle ticks	6,258	6,172	1.4%	4,460	0	4,460
Foot & mouth disease - Darien Gap	3,053	3,011	1.4%	3,924	0	3,924
Misc. animal diseases & pests**	1,300	1,282	1.4%	2,081	0	2,081
National poultry improvement plan	219	216	1.4%	229	0	229
Poultry diseases	643	634	1.4%	673	0	673
Pseudorabies	3,338	3,292	1.4%	3,075	0	3,075
Scrapie	1,100	1,085	1.4%	0	0	0
Screwworm	32,045	31,607	1.4%	33,391	0	33,391
Swine health protection	3,265	3,220	1.4%	3,417	0	3,417
Tuberculosis	3,501	3,453	1.4%	3,654	0	3,654
Animal welfare	7,567	7,464	1.4%	8,688	0	8,688
Horse protection	161	159	1.4%	359	0	359
SUBTOTAL	177,091	174,668	1.4%	185,658	0	185,658
Animal damage control-methods	7,428	7,326	1.4%	7,763	0	7,763
Animal damage control-operations	22,387	22,081	1.4%	24,288	0	24,288
SUBTOTAL	29,815	29,407	1.4%	32,051	0	32,051
Biotechnology	4,750	4,685	1.4%	6,518	0	6,518
Contingency fund	4,500	4,438	1.4%	4,500	0	4,500
Plant methods development	NA	NA	NA	0	5,499	5,499
TOTAL Salaries & Expenses	352,182	347,366	1.4%	367,950	0	367,950
Buildings and facilities ***	13,422	13,385	.3%	25,396	0	25,396
Trust funds	5,000	5,000	NA	5,000	0	5,000
Total, APHIS	370,604	365,751	1.4%	398,346	0	398,346

* Includes both Russian wheat aphid and biocontrol for FY 1991.
** Includes both scrapie and miscellaneous pest for FY 1991.
*** Sequester amount is based on FY 1989 appropriation of $2.5 million.

ANIMAL AND PLANT HEALTH INSPECTION SERVICE
FY 1991 President's Budget Program Structure

	CONFERENCE ACTION	FY 1990 BUDGET	PERCENT SEQUESTER	FISCAL YEAR 1991 CURRENT STRUCTURE	PLANT METHODS	PROPOSED STRUCTURE
PEST & DISEASE EXCLUSION:						
Africanized Bee	1,950	1,923	1.4%	0	0	0
Agricultural quarantine inspection	66,468	65,559	1.4%	75,998	(1,029)	74,969
Foot-and-mouth disease	3,053	3,011	1.4%	3,924	0	3,924
Import-export	8,604	8,486	1.4%	9,001	0	9,001
International programs	4,304	4,246	1.4%	4,500	(8)	4,492
Mediterranean fruit fly	10,258	10,118	1.4%	10,853	(422)	10,431
Mexican fruit fly	1,717	1,694	1.4%	1,952	(207)	1,745
Screwworm	32,043	31,607	1.4%	33,391	0	33,391
SUBTOTAL	128,397	126,642	1.4%	139,619	(1,666)	137,953
PLANT AND ANIMAL HEALTH MONITORING:						
Animal disease detection	5,394	5,320	1.4%	9,256	0	9,256
Pest detection	3,928	3,874	1.4%	4,323	(183)	4,140
SUBTOTAL	9,322	9,194	1.4%	13,579	(183)	13,396
PEST AND DISEASE MANAGEMENT PROGRAMS:						
Animal damage control-operations	22,387	22,081	1.4%	24,288	0	24,288
Animal health Comp. & Enforce.	14,694	14,493	1.4%	12,354	0	12,354
Biocontrol *	5,950	5,869	1.4%	7,936	(592)	7,344
Boll weevil	13,135	12,955	1.4%	10,017	(201)	9,816
Brucellosis eradication	62,786	61,927	1.4%	64,553	0	64,553
Cattle ticks	6,258	6,172	1.4%	4,460	0	4,460
Citrus canker	0	0	NA	1,318	(54)	1,264
Golden nematode	800	789	1.4%	838	(30)	808
Grasshopper & Mormon cricket	3,830	3,777	1.4%	8,309	(231)	8,078
Grasshopper Reserve Fund	5,000	4,932	1.4%	0	0	0
Gypsy moth	5,442	5,366	1.4%	5,711	(834)	4,877
Honey bee pests	375	370	1.4%	522	(20)	502
Imported fire ant	5,000	4,932	1.4%	2,315	(763)	1,552
Misc. plant & animal diseases **	2,424	2,391	1.4%	3,347	(65)	3,282
National poultry improvement plan	219	216	1.4%	229	0	229
Noxious weeds	597	585	1.4%	656	(87)	569
Pink bollworm	1,700	1,677	1.4%	1,419	(409)	1,010
Poultry diseases	643	634	1.4%	673	0	673
Pseudorabies	3,338	3,292	1.4%	3,075	0	3,075
Russian wheat aphid	1,000	986	1.4%	0	0	0
Scrapie	1,100	1,085	1.4%	0	0	0
Swine health protection	3,265	3,220	1.4%	3,417	0	3,417
Tuberculosis	3,501	3,453	1.4%	3,654	0	3,654
Witchweed	5,281	5,209	1.4%	5,528	(384)	5,144
SUBTOTAL	169,045	166,733	1.4%	164,619	(3,650)	160,969
ANIMAL CARE:						
Animal welfare	7,567	7,464	1.4%	8,888	0	8,888
Horse protection	161	159	1.4%	159	0	159
SUBTOTAL	7,728	7,623	1.4%	9,047	0	9,047
SCIENTIFIC AND TECHNICAL SERVICES:						
ADC methods development	7,428	7,326	1.4%	7,783	0	7,783
Biotechnology	4,750	4,685	1.4%	6,516	0	6,516
Plant methods development	0	0	0	0	5,499	5,499
Veterinary biologics	8,641	8,523	1.4%	9,507	0	9,507
Veterinary diagnostics	12,371	12,202	1.4%	14,780	0	14,780
SUBTOTAL	33,190	32,736	1.4%	38,586	5,499	44,085
Contingency fund	4,300	4,240	1.4%	4,500	0	4,500
TOTAL, SALARIES AND EXPENSES	352,182	347,366	1.4%	369,950	0	369,950
Buildings and facilities ***	13,422	13,385	.3%	25,398	0	25,398
Trust funds	5,000	5,000	NA	5,000	0	5,000
TOTAL, APHIS	370,604	365,751	1.4%	400,348	0	400,348

* Includes both Russian wheat aphid and biocontrol for FY 1991.
** Includes both scrapie and miscellaneous pest for FY 1991.
*** Sequester amount is based on FY 1989 appropriation of $2.5 million.

QUESTIONS SUBMITTED BY SENATOR HARKIN

PSEUDORABIES

Question: I understand that the National Pork Producers Council is seeking $12.7 million for pseudorabies in fiscal year 1991. I would like to have you provide the committee with an analysis of how you would use those funds to control and eradicate pseudorabies if they were appropriated.

Answer: In the event $12.7 million is appropriated for the pseudorabies program, two areas would be expanded substantially. The first of these is surveillance, or "case finding," and includes both first point-of-concentration and "down-the-road" or on-farm testing. Major packer surveillance, currently conducted in 7 States (IL, IN, OH, IA, MN, NE, and NC), would be broadened and increased and expanded to include other States with significant levels of infection. A second area that would be substantially increased is herd cleanup, i.e., elimination of infection. Funding at the $12.7 million level would permit implementation of a program of area testing and cleanup in selected counties with high infection levels, thereby enabling States to rapidly progress in the national program and provide incentive for other areas and/or States to advance. The latter initiative would likely be limited to States having advanced to Stage 3 of the national program.

Additional support would be provided for studies at the Livestock Conservation Institute. Also, the funds would permit two studies of area cleanup in Ohio and Kentucky which have counties (Mercer County, Ohio, and Union County, Kentucky) with high prevalence of pseudorabies infection. Studies would be undertaken aimed at developing ways of dealing with the problem of feral swine populations in certain States and to develop an early warning system to detect the entry of feral swine into domestic herds. Also, training would be enhanced and expanded in several ways. Support for APHIS personnel receiving graduate training in pseudorabies epidemiology at major universities would be broadened. A national epidemiologist would be hired to work in the field and provide liaison and program coordination between the Veterinary Services regional offices and headquarters. In addition, APHIS would conduct additional courses in pseudorabies epidemiology for State and Federal personnel. Opportunities would also be explored for training to be offered to swine practitioners in identifying and controlling and/or eliminating the disease.

Question: Do you believe that the Department of Agriculture is committed to the program of eradicating pseudorabies? Does the program really have a high funding priority within USDA?

Answer: Yes, the Department's commitment to eradication is strong. The best example of this is the fact that in Fiscal Year (FY) 1989, the first year of the eradication program, Congress appropriated $2.672 million for pseudorabies yet APHIS actually spent $3.1 million to the effort to ensure that it was initiated on solid ground.

Question: Federal funding for the pseudorabies program is lagging behind the ten year plan of funding for the program. Hasn't past experience shown that the shorter the time it takes to eradicate or eliminate a disease, the less it costs the taxpayers because fewer dollars are expended over the life of the program?

Answer: Yes, we agree that the faster a disease is eradicated the less the cost to the taxpayer. Fiscal capacity of the program participants and agreements as to who should provide funding are important constraints. A benefit-cost study prepared by Iowa State University indicates that the optimum program length for pseudorabies eradication would be 10 years.

Question: If the program is not adequately funded each year, is it apt to turn into a fifty year program like the brucellosis eradication program?

Answer: Given the current rate of progress and level of State and industry support, we do not foresee the program evolving into a 50-year effort.

Question: If the Department of Agriculture is committed to the eradication of pseudorabies, why is it that the third year of the program USDA has only requested $3.075 million, when a much greater sum is needed to maintain the program momentum?

Answer: A large increase was not possible given the constraints on the Federal budget.

Question: In January during the hearing we requested budget numbers on each of the entities in the APHIS budget. Do you have those numbers yet? When will you have them?

Answer: The information was provided in February as an insert to the hearing transcript, but we will be happy to answer any further questions you may have.

Question: How are you progressing on publication of the syntrovet (differential) vaccine rule? How long will it be before publication?

Answer: We are currently preparing the final rule in this matter and expect publication by the end of July 1990.

Question: Congress has applied a 5.1% administrative cap to the PRV budget. What do you apply to this cap? What does not apply to the cap?

Answer: APHIS includes within the 5.15 percent cap those agency-level activities defined as administrative support, comprised of the Office of the Administrator, Legislative and Public Affairs, and Management and Budget. Not applied to the cap are those agency-level activities defined as program support. The latter category includes activities which are generally scientific in nature such as program planning and design, policy development, recruitment, training, and overall program coordination.

Question: Would APHIS have a problem with a direction that 75% of PRV funding be allocated to fee basis?

Answer: We would be opposed to such direction. Currently, over 50 percent of Federal funds allotted to the field are currently used for surveillance at packing plants and markets. There is a strong possibility that the amount of fee basis testing and its cost could become excessive, thereby leaving little or no money for disease surveillance and other critical areas of the program. The determination on fee basis should be left up to State authorities.

CORE FUNCTIONS

Question: In recent testimony before my Subcommittee on Nutrition and Investigations, the Iowa Veterinary Medical Association stated that veterinarians and producers needed USDA-APHIS-VS field veterinarians irrespective of the presence or absence of eradication programs. This activity requires different funding mechanisms than the current eradication-based APHIS programs. Could APHIS develop a baseline infrastructure to facilitate interstate and international livestock movement for disease surveillance and for foreign animal disease protection for our livestock industry?

Answer: Yes, we could. There are a number of core functions that APHIS must carry out to assure national agricultural protection regardless of whether or not we are involved in programs to control or eradicate particular pests or diseases. There will always be a need to have a structure or "basic organization" to carry out these functions. It may be appropriate to separate in the budget these core functions or the basic organization needs from what is required to eradicate diseases such as brucellosis and pseudorabies.

In 1982, a study conducted within APHIS identified essential activities (including mandated activities) and the funding necessary for APHIS to carry out its mission of protecting American agriculture against harmful diseases and pests. This study identified five components for the work of the Agency. These components were Port-of-entry inspection, Surveillance and detection, Laboratory and technical support, Quick reaction capability, and an International role. A core structure - or infrastructure - of activities within these components was identified as necessary even if APHIS were not involved in control or eradication programs for specific diseases and pests.

The study did not address specific control and eradication activities. These activities would require additional staffing and funding beyond the core structure for such things as cooperative agreements, supplies, equipment, and indemnity.

Since the study was completed in 1982, several changes have occurred in APHIS both organizationally and programmatically. We had the Animal Damage Control (ADC) program transferred to APHIS from Interior, we have added several new programs such as biotechnology and have added regulatory responsibilities such as in animal welfare. We would need some time to carefully review Agency activities in detail to determine more precisely the activities and amounts properly belonging in the core structure and those activities associated with control and eradication.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

APHIS REORGANIZATION

It was our understanding that the recent reorganization of APHIS would not cost additional dollars. We are now hearing from a broad cross-section of the producers who are served by APHIS that this has not been the case. In fact, we are told that APHIS' recent allocation of the 1990 program appropriations--the amounts provided by the Congress--provided dramatic increases in administrative and support functions with only small percentage increases overall in field-level funding. In other words, funds appropriated for specific projects have been severely reduced in the shadow of those increased overhead costs.

Question: For the record, please provide the dollar amount spent for overhead and/or support for the year preceding the reorganization, last year's level, and the amount that will be spent this year.

Answer: We would be pleased to provide that information. Allow me, however, to first point out several factors relating to this information. Much concern has been expressed about APHIS overhead costs. APHIS has no separate line items for things such as administration, training, regional offices, and information support. These items, which support all field programs, must be financed from each line item. Our overhead today for administrative support is around 5 percent, the same as it has been since the inception of the Agency. Agency-wide, APHIS spends less than 16 cents on the dollar to finance program and administrative support. This percentage has been relatively stable in Fiscal Years (FY) 1988, 1989, and 1990.

The information follows:

Administrative and Support Costs
($000)

1988 Amount--% BA	1989 Amount--% BA	1990 Amount--% BA
50,998--15.5	52,300 15.8	54,727 15.8

Question: Is the "reorganized" APHIS staffing complete or will additional personnel be needed to complete it?

Answer: Yes, the reorganization has been implemented and no additional personnel are needed to complete it.

WITCHWEED

As an example, Senator Strom Thurmond contacted me last week indicating that he had been advised by some of his constituents that the APHIS "reallocation" had reduced by $410,000, the funding of the Witchweed eradication program. He further advised that this reduction in funding will result in a delay of a least two years in the projected eradication date and additional costs for the program would exceed $10 million.

Question: First of all, has this program been reduced $410,000, and if so, do you feel this reduction is warranted or justified?

Answer: The witchweed program has not been reduced by $410,000 this year. In FY 1989, the program was appropriated $5,281,000. This year, the program was also appropriated $5,281,000, but due to the Gramm-Rudman-Hollings sequestration of 1.4 percent, it was reduced by $72,000 to $5,209,000. From the $5,209,000, $352,000 is used to fund plant methods development work for witchweed. In our FY 1991 Explanatory Notes we have shown the witchweed line item without the $352,000 in plant methods development funds, and have placed these funds in the new plant methods development line item. There is no change in field availability due to this change in line-item reporting. There are no plans to reduce or redirect the witchweed eradication program funds.

BOLL WEEVIL FUNDING

Question: Second, has the Boll Weevil program been reduced, and if so, by what amount?

Answer: No, the boll weevil program has not been reduced in FY 1990. Like the witchweed program, and all other plant disease and pest control programs, we have removed the boll weevil methods development funds from the boll weevil line item and shown them in the new plant methods development line-item. Boll weevil methods development amounts to $114,000 in FY 1990. The amount sequestered from boll weevil was $180,000.

ANIMAL DAMAGE CONTROL PROGRAM (ADC)/CORMORANTS

Farm raised channel catfish is the largest aquaculture industry in the U.S. with annual production well over 340 million pounds of live fish. Of these, Mississippi produces approximately 80 percent (91,000 acres).

As you know, Mississippi has serious problems with fish-eating birds, such as cormorants, egrets, and herons. For the past couple of years funding ($275,000 a year) has been appropriated to combat this problem in the Delta States.

Question: What does ADC see as its responsibility in the control of depredating federally regulated migratory birds?

Answer: When the ADC program was transferred from the U.S. Department of the Interior (USDI) to the U.S. Department of Agriculture (USDA) on December 19, 1985, ADC was given responsibility for the management of migratory bird depredation;

however, USDI, U.S. Fish and Wildlife Service retained regulatory authority for managing migratory birds. While ADC has responsibility to manage depredation, it has to operate within the constraints of permits issued by USDI.

Question: Does ADC now require that traditional, non cost-shared assistance for migratory bird damage be cost-shared? If so, do you intend to discontinue existing migratory bird programs, such as the Mississippi cormorant program, that are not cost-shared?

Answer: The ADC Act of 1931 authorizes ADC to enter into cooperative programs. It is APHIS, ADC policy that operational programs be cost shared. This policy was reinforced by the FY 1990 Conference Agreement where the conferees stated that they expect animal damage control activities to be cost shared with non-Federal participants. ADC has no plans to discontinue programs such as the Mississippi cormorant program; however, we do intend to work with cooperators to gain greater cooperative funding.

Question: Would you consider it appropriate for Congress to appropriate adequate funds for a basic migratory bird management program in each state and ADC, then, utilize cooperative funds for additional operational programs above that base level?

Answer: Yes. Appropriations could be used to provide a basic technical assistance program in each state. Should states need and desire an operational program, the amount of cooperative dollars it provides should determine the kind of program it gets.

ADC/COST-SHARING POLICY

Question: ADC cost-sharing policy remains unclear and apparently not uniform. In Mississippi you provided $100,000 of the $200,000 directed by the Committee for beaver control, and yet the State of Mississippi has provided almost $230,000. This is not a 50 percent cost-share.

Is this cost-sharing formula being uniformly administered among the states and all activities or do these discrepancies exist only in Mississippi?

Answer: The cost-sharing agreements vary widely throughout the ADC program. Texas and California have the strongest cooperative programs, with one-third Federal and two-thirds cooperator funding. Some states are funded at approximately a 50/50 ratio. There are some states in which the Federal Government funds the cost of an ADC presence to provide technical assistance, but there is no operational program because cooperative programs have not been developed.

Question: Would you please provide for the record, a state-by-state listing of how appropriated funds compare to non-appropriated funds for each of your programs?

Answer: The information follows:

The amount of Federal and non-Federal contributions by State for the ADC program in FY 1989.

	Non-Federal	Federal
Arizona	$240,439	$372,454
Arkansas	0	207,000
California	2,085,566	1,165,202
Colorado	234,459	662,762
Florida	12,000	65,000
Georgia	7,024	73,000
Idaho	280,108	782,875
Illinois	0	108,000
Indiana	0	59,000
Louisiana	8,500	240,000
Maine	0	68,000
Maryland/DE/DC	0	62,000
Massachusetts/CT/RI	0	53,000
Michigan	28,750	85,150
Minnesota	0	185,000
Mississippi/AL	18,847	229,000
Missouri/IA	0	55,000
Montana	454,230	800,400
Nebraska	110,497	278,195
Nevada	505,662	573,389
New Hampshire/VT	41,696	180,000
New Jersey/PA	35,000	129,000
New Mexico	641,135	955,615
New York	4,000	168,000
North Carolina	0	73,000
North Dakota/SD	364,414	660,140
Ohio	40,000	154,000
Oklahoma	595,057	643,177
Oregon	697,547	774,732
South Carolina	0	59,000
Tennessee/KY	115,614	250,000
Texas	3,583,805	1,708,868
Utah	732,839	805,880
Virginia/WV	0	131,000
Washington/HI	254,954	514,656
Wisconsin	251,715	276,000
Wyoming	537,886	822,675
TOTAL	$11,881,744	$14,430,170

ADC/MANAGING MIGRATORY BIRDS

Question: The question of ADC obtaining authority for managing migratory birds causing agricultural losses has been with us since we transferred ADC to APHIS in 1986.

Is APHIS/ADC concerned about this? What efforts/progress has been made toward a solution?

Answer: Yes, various attempts have been made since the transfer and all have failed. This fiscal year we established a joint APHIS/Fish and Wildlife Service task force to work on this issue and make recommendations to each Agency on how to resolve this problem.

Question: What can this Subcommittee and/or Congress do to help solve this problem?

Answer: APHIS has responsibility for managing migratory bird depredation and the U.S. Fish and Wildlife Service has regulatory authority for managing migratory birds. The problem is that the responsibility and the authority do not rest with one Agency. The problem can be solved in one of two ways: (1) through greater cooperation between the ADC and FWS or (2) placing the regulatory authority and the responsibility for managing migratory bird depredation with one agency. We remain optimistic that better cooperation between the two agencies will allow greater flexibility in handling depredation problems.

BOLL WEEVIL

Question: The Southeastern Boll Weevil Eradication program was expanded to Georgia, Florida, and south Alabama in 1987. Early on, the effort had budget and operational setbacks due to unusual weather and unanticipated acreage planted within the eradication zone. What has been done to put the program back on schedule?

Answer: In response to the situation, the Secretary declared an extraordinary emergency and authorized the transfer of $6.2 million from the CCC to be repaid by the Southeastern Boll Weevil Eradication Foundation (SEBWF) over a 4-year period (1990-1993). The cotton producers in North Carolina and South Carolina have approved a $2 per acre increase in their cotton assessments. Growers in Alabama, Florida, and Georgia will be voting this spring to increase their assessments by $10 per acre. The State of Georgia has approved a supplemental appropriation of $3 million for the eradication program to partially offset the Georgia growers' costs.

The SEBWF established three review committees to review the management, program and financial components of the program and provide recommendations to make it more efficient and effective. The policies and procedures of the 1990 season have been developed with these recommendations as guidelines.

The SEBWF employed a full-time Financial Manager and Executive Director during the 1989 season, to specifically manage the operations of the Foundation in coordination with APHIS' Program Director.

Question: We note that the budget includes $9.8 million for continuation of the boll weevil eradication and containment programs in the West, Southeast, and Texas High Plains. However, we understand from cotton producers who are supplying 70 percent of the funds, that APHIS' share should be $13.8 million in 1991. If $13.8 million were appropriated, would APHIS be able to continue the eradication effort without compromising effectiveness?

Answer: The FY 1991 budget projection was based on the assumption that conditions affecting the program -- weather, weevil population, increased acreage -- would be at a satisfactory level for continuation of the program. The industry estimate for funding would ensure that APHIS is able to maintain its commitment to pay its 30 percent share of the SEBWF's projected budget and would allow effective program application irrespective of weather conditions.

PINK BOLLWORM

Question: Pink Bollworm has been kept out of California's San Joaquin Valley through the cooperative sterile moth release program. Insects are reared in leased facilities in Phoenix with equipment owned by APHIS. I understand that California producers, having been given notice of loss of their building lease, have purchased facilities in Phoenix for relocating the sterile moth rearing operation. What APHIS expenditures will be required in 1991 to equip the new facility for continuing an uninterrupted supply of sterile moths for the San Joaquin Valley and other APHIS uses?

Answer: It will cost approximately $3 million to equip the new facility. This level of funding would allow the new facility to produce the same number of sterile moths as the old facility.

Question: In anticipation of potential need for a pilot pink bollworm sterile release program in other Western cotton-producing areas, for the record, what would your anticipated budgets be for 1992, 1993, and 1994 for a program requiring a total of four times as many moths as currently being produced?

Answer: Our funding requirement to continue moth production at the current level is $1.7 million per year. To conduct the pilot test we will only need three times as many moths as we are currently producing. To continue current operations and to prepare for the pilot test, our estimated funding needs are $7.7 million for FY 1992, $1.7 million for FY 1993, and $5.7 million for FY 1994.

The FY 1992 amount includes funds to complete equipping the facility and to assist in the renovation costs of retrofitting the building from the current production level to three times the current production level. The FY 1993 amount reverts to $1.7 million. During FY 1993 the facility would be completed which would allow moth production in FY 1994 at the increased level needed for the pilot program. In FY 1994, we estimate $5.7 million which includes $4 million to begin the first year of the pilot program, plus additional rearing facility operation costs.

QUESTIONS SUBMITTED BY SENATOR McCLURE

ANIMAL DAMAGE CONTROL

Question: Based on information provided, of the $4.2 million appropriated for the Animal Damage Control Program, only $781,614 went to the regional offices for actual on-the-ground predator program activities. That is about 20 percent. The remaining 80 percent went to cover administrative costs of USDA, APHIS, ADC Headquarters, Regional Office operation, and studies to comply with Environmental Protection Agency mandates. Could you explain the reasons for the allocation of these percentages?

Answer: A number of groups have expressed this kind of concern to us as it relates to Animal Damage Control (ADC), brucellosis, and pseudorabies. As you know, all programs including ADC, were reduced by 1.4 percent because of sequestration and we must absorb pay cost increases. The perception of the problem related to the allocation of funds in APHIS comes about because of our efforts to centralize functions in order to achieve economies of scale and accuracy in accounting. Our intent is to increase efficiency, not add new costs. Under this system, we identify costs at the place where they can be most efficiently managed rather than identify them as field expenditures. In fact, many of them are field operational costs for mail, telephones, and the like.

Much concern has also been expressed about APHIS overhead costs. APHIS has no separate line items for things such as administration, training, regional offices, and information support. These items, which support all field programs, must be financed from each line item such as ADC. Agency-wide, support costs are less than 16 cents on the dollar. This situation is similar for ADC.

I would also like to address your specific concern on the allocation of the ADC funding increase in FY 1990. Of the $4.2 million increase, $408,000 was sequestered. The remaining $3.8 million was allocated as follows: $1.2 million went to research for pesticide registration work; $1.3 million went to support ADC operational programs; $433,000 went for field costs paid from central allocations; $206,000 was allocated to complete the Environmental Impact Statement; $86,000 went to support the Pocatello Supply Depot; and $60,000 went to support a cooperative agreement with the National Agricultural Statistics Service for gathering better informational numbers on livestock losses. The remainder, $515,000 or 13.5 percent of the increase, was allocated for program and administrative costs to support the regional offices and headquarters. ADC is paying only its fair share of these costs. In addition, ADC, like other programs, is absorbing its share of the Federal salary increase.

APHIS REORGANIZATION

Question: APHIS recently underwent a reorganization that appears to have increased the need for funds to be assessed from program line items, such as the ADC program, and used for administration and other activities. Could you explain the nature of the reorganization and the rationale for it?

Answer: The purpose of the reorganization was to improve program delivery and insure that APHIS has the technical expertise to meet future program needs. Most of the organizational changes affected our headquarters units, and were intended to allow better support for our field operations through clearer direction, better planning, and more efficient use of human resources. I have a table which shows the seven objectives of the reorganization.

The information follows:

- Strengthen the scientific and technical base of the Agency.
- Establishment of a planning and decision-making system that will seek broad input, be cooperative, and communicative by nature, and result in sound decisions.
- Maintain and build on the strength of our laboratories.
- Improve our emergency response systems.
- Improve management in our international programs.

- Establish systems of compliance which rely on education and persuasion rather than punishment.
- Increase our attention to animal care.

In the past, some headquarters functions were duplicated or even triplicated. We have consolidated and streamlined activities to eliminate this repetitive effort. For example, we consolidated all of our planning activities into one unit, the Policy and Program Development unit. The creation of this unit provides an Agency-wide emphasis to functions such as strategic planning and areas of new emphasis.

Our Biotechnology, Biologics, and Environmental Protection unit brings together specialized permit and licensing functions that rely on sophisticated and highly technical risk assessment. Assembling these functions in one unit encourages resource sharing, increased accountability, and improved service. We have witnessed similar benefits from the reorganization in our Regulatory Enforcement Animal Care unit, where inspectors are now devoting full-time to animal welfare duties. Another unit, Recruitment and Development, brings together functions designed to recruit and develop people with technical, managerial and interpersonal skills needed to effectively perform the Agency's mission.

GRASSHOPPER

I am still concerned about the readiness of APHIS in the event that another large grasshopper outbreak occurs.

Question: Dr. Glosser, do you believe that APHIS could coordinate another large grasshopper spray program should it occur this spring or summer?

Answer: Yes, we have the funds and expertise to conduct a rangeland program if necessary.

Question: What did the fall grasshopper surveys show as potential for an outbreak this year? What states are involved?

Answer: Last fall we found 12,987,110 acres which had eight or more grasshoppers per square yard, which is the minimum criteria we use when considering acreage for treatment. However, this does not give us a reliable forecast of the number of acres we will actually treat. In the last couple of years, the fall surveys have identified approximately 15 million acres which had eight or more grasshoppers per square yard. However, we actually treated only 300,000 to 500,000 acres each year, either because the grasshopper infestations did not materialize, or because the landowners decided not to participate in a cooperative grasshopper control program.

We expect grasshopper outbreaks on rangeland to be light. We are watching indications of heavy Mormon cricket infestations in Nevada, Utah, and possibly Wyoming. We are also evaluating options for possibly spraying heavy infestations of grasshoppers on CRP land in eastern North Dakota and South Dakota, and western Minnesota.

Question: What is APHIS' state of readiness?

Answer: The Medfly emergency has diverted some of our staff, but we believe we are ready to respond to the need for grasshopper control in the traditional rangeland areas.

Question: Is the programmatic environmental impact statement current?

Answer: It is current for our traditional rangeland program.

Question: What problems, if any, do you predict should a program need to be implemented quickly?

Answer: The only problem we foresee would be in the area of staffing. We might have to pull some of our people off the Medfly project in California.

QUESTIONS SUBMITTED BY SENATOR GRASSLEY

ANIMAL DAMAGE CONTROL

The Sheep Industry is concerned with the ADC Program. Of a $4.2 million increase in last year's appropriation's bill, the sheep industry estimates only $1 million will be available to regional offices for program expenditures.

Question: Is this a common problem throughout the agency?

Answer: A number of groups have expressed this kind of concern to us as it relates to Animal Damage Control (ADC), brucellosis, and pseudorabies. As you know, all programs, including ADC, were reduced by 1.4 percent because of sequestration and we must absorb pay cost increases. The perception of the problem related to the allocation of funds in APHIS comes about because of our efforts to centralize functions in order to achieve economies of scale and accuracy in accounting. Our intent is to increase efficiency, not add new costs. Under this system, we identify costs at the place where they can be most efficiently managed rather than identify them as field expenditures. In fact, many of them are field operational costs for mail, telephone, and the like.

Much concern has also been expressed about APHIS overhead costs. APHIS has no separate line items for things such as administration, training, regional offices, and information support. These items, which support all field programs, must be financed from each line item such as ADC. Agency-wide, support costs are less than 16 cents on the dollar. This situation is similar for ADC.

I would also like to address your specific concern on the allocation of the ADC funding increase in FY 1990. Of the $4.2 million increase, $408,000 was sequestered. The remaining $3.8 million was allocated as follows: $1.2 million went to research for pesticide registration work; $1.3 million went to support ADC operational programs; $433,000 was allocated for field costs paid from central allocations; $206,000 was allocated to complete the Environmental Impact Statement; $86,000 went to support the Pocatello Supply Depot; and $60,000 went to support a cooperative agreement with the National Agricultural Statistics Service for gathering better informational numbers on livestock losses. The remainder, $515,000 or 13.5 percent of the increase, was allocated for program and administrative costs to support the regional offices and headquarters. ADC is paying only its fair share of these costs. In addition, ADC, like other programs, is absorbing its share of Federal salary increases.

Question: Have you heard from other industry groups with similar complaints?

Answer: Yes, we have heard from the National Cattlemen's Association and the Pork Producers.

ANIMAL WELFARE

Question: Is the Department budgeting adequate dollars for Animal Welfare Act inspectors?

Answer: Yes, we are. We have requested an increase of $1.2 million for the animal welfare line-item in FY 1991, which will be used to hire additional inspectors. We believe that the requested amount will enable us to carry out an even more effective program.

Question: Is any attempt being made to inspect unlicensed dealers and breeders?

Answer: Yes, direct and indirect information from a variety of sources enables our inspectors to pursue allegations of unlicensed individuals. We receive information from concerned citizens by letter, by telephone, and at inspections with licensed dealers. Our regulatory enforcement staff is also a source of information about potentially unlicensed dealers and breeders.

Question: Does any process exist for licensed breeders to report inspection irregularities or other problems?

Answer: The inspector, who regularly performs inspections at a facility, has program authority over that facility. However, if someone has a question or disagreement about an inspection, we encourage them to contact the sector office. The sector supervisor will review the situation, and seek to resolve it. If necessary, the sector supervisor may request that an animal care specialist become involved, depending on the nature of the issue. We seek to resolve any differences over inspections at the field level. If larger policy issues are involved, that evaluation is made at headquarters in Hyattsville, Maryland. We are committed to doing whatever is needed to resolve a problem.

IMPORTATION OF CHINESE SWINE GERMPLASM

When the Agricultural Research Service appeared before this Committee several weeks ago, I submitted questions regarding the importation of Chinese swine germplasm that we discussed at this hearing last year. While I have not seen a response from the ARS, I do believe it is appropriate to ask similar questions of APHIS.

Question: What is the APHIS's involvement in this project?

Answer: APHIS' involvement stems from our responsibility to safeguard the health of American agriculture by ensuring that harmful diseases and pests do not enter this country. With regard to the Chinese swine semen importation project, we developed health standards with China first for the importation of live swine, and later for semen. We also designed programs to ensure that those standards would be carried out. With respect to both live hogs and swine semen, we made every effort to facilitate the applicants importation consistent with our responsibility for protecting the Nation's animal health from exotic diseases and pests.

Question: What was APHIS's understanding regarding the importation of live hogs prior to the ARS project announcement?

Answer: Although we had a protocol with China concerning live swine that was signed in July 1986, we did not talk with them about the logistics of a project until we met with the Agricultural Research Service (ARS) in 1987. At that meeting, we were told that ARS and two universities had gone to China and negotiated an importation in which ARS would be the importer of record and would share in partnership with the universities. We assumed that ARS discussed the project with the universities and kept them up to date. We did have some joint discussions with the universities and ARS.

Question: Why was this importation of germplasm not explored with the universities?

Answer: We knew that there had been interest in germplasm by several universities since 1981. However, the Chinese were reluctant to discuss it. We did not know the reason for their reluctance. One conjecture was that they thought the exporter would have to build an artificial insemination facility. Only in September 1988, well after the protocol for live animals was completed, and after extensive discussions between private industry and the Chinese, did the Chinese agree to the export of semen as well. Thus, the interested universities were already involved in the live swine project by the time the Chinese indicated that they would be willing to export semen.

Question: Why was this issue, involving two agencies under the authority of two separate Assistant Secretaries, not dealt with at a higher level?

Answer: Each agency brought unique expertise and responsibilities to this project. Dealings between the agencies took place at the level of agency administrators, Dr. Plowman, and myself. Higher level involvement was not deemed necessary, due to the cooperation which exists between APHIS and ARS.

Question: What communication procedures are currently followed between agencies to prevent future problems?

Answer: We are not aware of any significant communication problems between APHIS and ARS. Representatives from each agency worked well together to solve any difficulties as they arose. We were in continuous contact with ARS personnel, particularly during the culmination of the project.

Question: What can be done to ensure similar developments in international research or biotechnology are not handled in a similar manner?

Answer: We are satisfied with our relationship with ARS in this project. We believe that APHIS' role in international research projects is with the technical animal health issues, not with determining topics or cooperators. If there are any specific concerns about this or future importations, we would be pleased to address them.

QUESTIONS SUBMITTED BY SENATOR GARN

ANIMAL DAMAGE CONTROL

The Department received a $4.2 million increase above 1989 monies for Animal Damage Control. Of that money, Congress recommended:

> "an increase of $250,000 for cooperative efforts with an academic institution to implement a model program that integrates animal damage control science into its wildlife damage management curriculum. The institution must have a strong capability in wildlife management, particularly predator, and close working ties with the science and technology component of APHIS' ADC program."

Question: It is my understanding that discussion regarding implementation of this program have been taking place between the Department and Utah State University, but as of this date, no such program has been implemented. Is that correct? What has caused the delay?

Answer: Yes, that is correct, we are negotiating with Utah State University. The delay was caused by confusion in the congressional directives. While the Senate report contains the language you've cited, the Conference Agreement was much less specific.

Question: It is obvious Congress wants the money spent on a cooperative program integrating animal damage control with wildlife management curriculum. Do you agree and, if so, how and when do you plan to implement such a program? If not, what has the agency done with the appropriated money?

Answer: We agree that development of a wildlife management curricula that includes animal damage control is a necessity. While we've undertaken such work at New Mexico State University, Mississippi State, and other colleges and universities, we are negotiating an agreement to develop a cooperative program with Utah State University. The Utah State program will establish a national education center for the science and practice of ADC. Current plans being discussed include degree programs at the undergraduate and graduate levels and a program for continuing education. The program will be implemented during FY 1990.

Question: Are you supporting the intended purpose with the use of the $250,000?

Answer: Yes, we are.

Question: Where are you providing the wildlife curriculum support?

Answer: We are teaching courses and serving as guest lecturers at a number of colleges and universities through the U.S. In addition, we have employed cooperative students from New Mexico State University and University of Nebraska. We have also entered into an agreement with Grambling State University to employ two cooperative education students during FY 1990. We are not currently providing any funds to support the development of a wildlife curriculum at any colleges or universities at present until the agreement with Utah State University is completed.

FOOD SAFETY AND INSPECTION SERVICE

QUESTIONS SUBMITTED BY SENATOR BURDICK

SEAFOOD INSPECTION

Question: Does FSIS have any experience inspecting fish processing plants?

Answer: FSIS has a cross-utilization agreement with the National Marine Fisheries Service (NMFS), whereby FSIS provides inspection services to the NMFS voluntary fish inspection program. NMFS trains FSIS inspectors for this inspection. Since FSIS inspectors have already received training in food technology areas such as processed products inspection, sanitation, microbiology, and quality control, a minimum of NMFS training is all that is needed for FSIS inspectors to perform inspection on fish and seafood products. FSIS also has access to extensive training in seafood inspection and marine sciences at our Training Center at Texas A&M, in addition to the training already provided for meat and poultry inspection.

Further, the University's Department of Wildlife and Fisheries Sciences has a faculty of 25 that is very active in research on fish and seafood. The location of the Veterinary Medical Diagnostic Laboratory of Texas on the campus would also be of assistance to a fish inspection program.

Question: Does FSIS have experience with the Hazard Analysis and Critical Control Points regulations necessary for thorough seafood inspection?

Answer: Yes. FSIS has already incorporated HACCP procedures into certain aspects of current inspection operations, and is preparing for the implementation of HACCP inspection programs in all appropriate meat and poultry inspection activities. The concept of HACCP is the same, whether it is for meat, poultry or seafood.

Since 1980, FSIS has been promoting total quality control programs in processing plants and extending the concept of quality control to all processing plants and to slaughter procedures. The concept of quality control is easily translated to HACCP-based inspection, in that both approaches focus inspection on the critical points which can affect product acceptability.

For meat and poultry inspection, further implementation of HACCP will benefit the public, industry, and USDA by concentrating science based inspection activities on the critical areas of product safety, wholesomeness, and the prevention of adulteration in conjunction with industry responsibilities and actions so as to produce safe, wholesome and unadulterated food.

The first step in implementation is agreement on basic principles. In late October, FSIS released a concept paper defining HACCP as it relates to agency activities. In that paper, we announced our plans to begin a two-year study to determine the optimal process for implementing HACCP in meat and poultry inspection operations. Our second step was to develop a strategy for that two-year study to help us determine the best way to implement HACCP. This strategy paper was distributed in January.

As part of the HACCP study, we are soliciting suggestions from FSIS employees, employee and other professional organizations, other regulatory agencies, the public, and private industry.

We are also convening cooperative workshops with industry, which will allow us to draw from their expertise to develop suitable HACCP models. This process will be similar to the work done by NMFS in preparing their model HACCP plan. The objectives of the workshops are to ensure a mutual understanding of HACCP principles and applications; allow industry and government to work together to develop model HACCP plans for specific products or processes that include all HACCP principles; and, identify regulations and laws that need recasting to accommodate a HACCP regulatory framework.

After the workshops, we will begin testing the models in plants. Eventually, we will conduct a trial implementation of the HACCP model plan using the HACCP system and traditional inspection methods. We will need to look at several categories of products or processes before determining the best overall approach for implementing HACCP in the meat and poultry inspection program.

Another critical element in the HACCP study will be the education of FSIS inspectors, industry employees, and consumers. The development of a successful and cooperative HACCP program will depend on everyone having a common understanding of HACCP principles and applications.

PROCESSING INSPECTION

Question: The budget proposes an increase of almost $5.5 million for processing inspection services. Of this amount, over $3 million will be spent to maintain current services. What is the greatest share of these costs?

Answer: The increase in funding is needed to meet the rising costs of employee benefits and inflation and to restore program reductions required in fiscal year 1990 by the Gramm-Rudman-Hollings sequester.

Question: Please provide a breakdown of these costs for the record, showing how many employees will be covered.

Answer: For Processing Inspection, FSIS is requesting $1,385,000 to restore program cutbacks required by the 1990 Gramm-Rudman-Hollings sequester; for inflation costs, $483,000; for federal retirement, $435,000; for health insurance, $670,000; and for workmen's compensation, $301,000. The Processing Inspection activity has a full-time equivalent employment of 2,299.

LABORATORY SERVICES

Question: The budget calls for an increase of $1.3 million for laboratory services. What portion of this amount will be paid for supplies, tests, laboratory work, as well as other goods and services?

Answer: Over $700,000 of the requested increase in fiscal year 1991 is for employee pay and benefits increases. The budget increase requested for Laboratory Services also includes $441,000 for contractual services such as analytical methods development work and data gathering, $34,000 for supplies, and $58,000 for equipment. All of these amounts are required to offset inflation and to restore the program to the pre-sequester level.

Question: Please provide a breakdown for the record of the employee benefits requested.

Answer: In Laboratory Services, the request for 1991 includes increases in employee benefits made up of a $15,000 restoration of program reductions associated with the 1990 sequestration; $80,000 for increases in the federal employees retirement system; $126,000 for health insurance; $55,000 for workmen's compensation; and $59,000 for increases in benefits associated with salary increases.

GRANTS TO STATES

Question: The budget proposes $1.9 million to cover increasing costs of goods and services by state inspection agencies. Please detail for the record what goods and services are covered by these costs.

Answer: USDA provides matching funds equal to half of the cost of State meat and poultry inspection programs. By far the greatest portion of these costs is for the salaries and benefits of the employees of State inspection programs. The remainder of the State expenses includes program administration, training, travel, supplies and equipment, and laboratory work.

FOOD LABELING

Question: How is FSIS participating in food labeling reforms currently underway?

Answer: FSIS has designated food labeling as one of its seven major areas of emphasis for Fiscal Year 1990. The Agency is deeply committed to improving its labeling process and to ensuring harmonization with FDA in food labeling policies.

FSIS activities have included participation in a series of food labeling hearings conducted by FDA during the latter part of 1989. These hearings revealed consumer concerns for nutritional labeling and national uniformity in labeling, and continued consumer interest in food health claims.

As part of the harmonization effort, FSIS and FDA jointly contracted two studies on food labeling. The first, which has been completed, was a study to define labeling authorities, responsibilities, and regulations of both Agencies. The second contracted study, currently underway by the National Academy of Sciences, is to recommend changes to provide consumers more useful information regarding nutrition, diet, and health.

Question: How can meat and poultry labeling be improved?

Answer: Although meat and poultry product labels already bear some health-related information, FSIS is considering more ways to improve labeling through which consumers may make more informed food purchases. These improvements may include the area of nutrition labeling, its extent and clarity; the definition of such terms as "natural" and "organic"; and the inclusion of handling and refrigeration instructions on labels.

Question: Does FSIS favor the concept of uniformity in labeling requirements?

Answer: FSIS continues to support uniform labeling for products in interstate commerce and is totally committed to the effort to maximize food labeling uniformity. This commitment is demonstrated by the priority the Agency has placed on the effort and by recent joint activities with FDA involving food labeling hearings and contracted studies. Although a clear difference exists in the products regulated by the two Agencies, uniformity is possible in the definitions of certain labeling terms, the requirements for using such terms on labeling food products, and the message conveyed to the consumer by label claims.

QUESTIONS SUBMITTED BY SENATOR McCLURE

IMPORTS FROM CANADA

Question: Mr Chairman: Thank you for allowing me a few minutes to discuss a few of my concerns over expenditures made by the Food Safety and Inspection Service, the Animal and Plant Health Inspection Service, and the Agricultural Marketing Service. I appreciate the opportunity to speak today and I also appreciate the attendance of those members of the panel from the various Departments and Agencies.

I am excited to see the major initiatives recommended in the Administrations budget -- many of which you will directly oversee. I speak of the initiatives in the area of food safety.

All of us involved in agriculture have seen the problems associated with the public's fear of contaminated foods. Whether the information is correct or not, media attention focuses consumers concern on the question of "just how safe is our food?". Unfortunately mis-informed or dis-informed consumers, not knowing where to turn or who to trust, decide that they will simply not purchase foods which may or may not have residues. This causes severe disruptions in the food supply chain, eventually hurting the producer of the product.

I support the Department's $25 million initiative for a multiagency effort to collect and analyze residue data regarding actual exposure levels in the U.S. Food supply. With the Agricultural Marketing Service overseeing this effort, I hope that information provided by this effort could improve the effectiveness of other programs which are to protect the public health.

I want to comment on a particular issue which, although it has been around for several years, has not been adequately dealt with and continues to be a problem. I am concerned with the issue of border inspections of meat and meat products along the Canadian border. I believe that both Mrs. Smith and Mr. Crawford are familiar with the problem and I understand that a meeting was recently held on this subject with several members of the U.S./Canadian Border Inspection Station Association.

Because the mission of FSIS is to ensure that meat and poultry products are safe, wholesome and accurately labeled the USDA has been inspecting meat exports from Canada at the border since the Canadian Free Trade Agreement made destination inspection illegal. Over the course of the past year I understand that the number of trucks bearing Canadian meat products which are required to stop at the border Inspection Stations has dropped from every truck to only 1 in 15. I understand that not only has the amount of meat being inspected dropped, I have been told that USDA inspection procedure now allows the Canadians to select the product exam units, place them on the back of the truck, knowing when they leave the plant that only this particular truck out of all others crossing the border will be stopped.

Is this correct? Are border inspections reduced to only 1 in 15?

Answer: Before the Free Trade Agreement, all shipments of Canadian product were presented for inspection at import establishments prior to entry into U.S. commerce. When lots were presented for reinspection, the Automated Import Information System (AIIS) determined the inspection assignment for each lot of product based on the compliance history of the plant for that type of product. The AIIS determined the types of examinations and tests to be performed. Reduced levels of inspection were possible for lots from plants with good performance histories. In 1988, 61,254 lots of Canadian product entered the U.S., and 13,980 of those lots were inspected.

In 1989, under the Free Trade Agreement, the AIIS was modified to accommodate the new relationship between the U.S. and Canada. First, it was predetermined that 3,000 lots would be inspected each year. This number is statistically sufficient to represent the volume of Canadian product exported to the U.S., while at the same time conforming with FTA provisions on frequency of inspection. Second, the selection of the 3,000 lots is entirely random, with each lot having the same probability of being chosen. In 1988, the chance of a given lot's being selected for inspection was dependent on previous performance of the producing establishment. One feature of AIIS-based reinspection was retained in the 1989 revisions: following a rejection, extra samples are taken to confirm that the problem had been corrected. This feature is called intensified sampling. In 1989, 27,370 Canadian lots entered the U.S.; 3,030 lots were randomly selected for inspection, and 1,898 lots were inspected under intensified sampling. Essentially the same amount of Canadian meat and poultry products were exported from Canada to the U.S. in 1989 and 1988. The AIIS is currently structured to randomly select 1 out of 9 lots to achieve the 3,000 lots for inspection.

Question: Also are Canadians allowed to select which lots will be sampled?

Answer: On January 5, 1989, FSIS published an interim rule (54 FR 273), effective immediately, which authorized new "streamlined" inspection procedures for product from Canadian establishments that wish to participate in the new procedures. When a Canadian plant determines that a shipment is destined for the U.S., an Agriculture Canada inspection official contacts one of three FSIS Import Field Offices to obtain an inspection assignment. The Import Field Office personnel consult the AIIS to determine if the particular shipment is subject to inspection. If no inspection is assigned, then the product is loaded onto a truck, and the truck proceeds to the border and through U.S. Customs into U.S. commerce. If the AIIS determines that inspection is necessary, then the Canadian inspection official is informed of the number of samples needed according to established sampling tables. The Agriculture Canada inspector will then select and identify the appropriate samples, and place them in an accessible area of the truck. The loaded truck transports the consignment to an import inspection establishment where a USDA import inspector performs import inspection. A copy of the rule is submitted for the record.

[CLERK'S NOTE: The rule will not be printed in the record but is available for review in the Rules and Regulations section of the Federal Register, Thursday, January 5, 1989.]

Question: If so, what have been the rejection rates of U.S. inspectors under this method? How does that compare with the previous system of checking all loads coming through the border stations?

Answer: In 1988, each of the 61,254 lots of Canadian product exported to the United States was presented for inspection. All lots were checked for overall condition, correct labeling and proper documentation. In addition to these procedures, 13,980 lots were selected for detailed organoleptic inspection and/or laboratory analysis; 666 of these were rejected.

In 1989, 27,370 lots of Canadian product were exported to the United States; 3,030 lots were randomly selected for detailed inspection procedures. Import inspectors rejected 126 of these 3,030 lots. An additional 1,898 lots were inspected under the intensified procedures; 214 of these were rejected.

During January and February 1990, 3,978 lots of Canadian products were exported to the United States; 427 lots were randomly selected for detailed inspection and 11 of these were rejected. An additional 307 intensified lots were inspected and 25 of these were rejected.

Question: I have information which leads me to believe that the Canadian inspection program is not very good. I understand that in January 1990, 9 of 22 loads inspected at Sweetgrass, Montana were refused entry not because of paperwork mistakes but because of contamination, failure to meet criteria set down by USDA which made this meat not fit for human consumption. This is a 40 percent failure rate on samples which were chosen for inspection by the

Canadians in advance, knowing they would have to stop for inspection. I must ask myself, what does the rest of the meat look like if the Canadians have a 40 percent refusal rate on what they know will be inspected. I question whether the Canadian meat inspection is up to par with that required in the United States.

Even in light of this I understand that Secretary Yeutter has reached an agreement with Canada which will completely end border inspection of meat and poultry. Under the agreement, we, the U.S., will accept the Canadian meat inspection certificates as if they were our own. Although this is an experimental program, designed to last only one year, it appears to be a bit pre-mature to me in light of the number of "Refused Entry" cases. Does the Food Safety Inspection Service believe that a 40 percent refusal rate is acceptable and that by allowing no border inspection the U.S. consumer of meat and poultry products is well protected?

Answer: The purpose of import inspection is to obtain information that indicates how Canada as a whole produces meat and poultry products which meet U.S. standards. It is not statistically valid to use the results of a small number of reinspections (22 lots) as an indicator of Canada's performance as a whole. During 1989, a representative sample of 3,030 lots of Canadian product were randomly selected for reinspection out of a total of 27,370 lots which were presented for entry into the United States.

Out of the 3,030 reinspected lots, 126 lots were refused entry because the product did not meet U.S. standards. This is a rejection rate of 4.2 percent and can be used as a more accurate measure of the amount of Canadian product which does not meet U.S. standards. Each time one of the randomly selected lots was refused entry, the next 15 lots from the same producing establishment were reinspected. There were 1,898 lots reinspected under the "intensified" procedures. These lots should not be used to compute a true rejection rate because the lots were not randomly selected. Several of the 22 lots inspected at Sweetgrass were in the category of "intensified" lots. We are sending the Committee total reinspection data for Canada for 1988, 1989, and 1990 for more detailed information on this issue.

Question: The elimination of border inspection brings to mind another issue which has bothered me for well over a year. I believe it was in 1988 that the USDA was actively recruiting people to build border inspection plants to accommodate the increase in border meat inspection which would result from the Canadian Free Trade Agreement. Up until November 1988, USDA was still telling individuals that floor plans for the new facilities needed to be approved to meet USDA requirements. USDA assured these individuals that they would be needed as all trucks from Canada would have to stop for inspection under the new Canadian Free Trade Agreement. I believe that USDA told these individuals this even though the USDA knew at the time that Canada and the US would eventually attempt to phase out all border inspection.

I realize that Mrs. Smith was not in her current position at the time these decisions were made and these investors encouraged to go into the inspection business, but I do believe that Mr. Crawford was. Mr Crawford, is it fair to say that USDA encouraged individuals to enter the business of border inspection of meat along the Canadian/U.S. Border?

Answer: Before the FTA, FSIS was gradually ending the practice of destination inspection. In April 1986, the Agency made a commitment to the change in response to recommendations in a preliminary report of the Office of Inspector General (OIG). The OIG recommended that the Agency initiate immediate action to stop permitting importers to ship meat and poultry products to inland sites for reinspection by inspectors who did not specialize in this work. In July 1986, the Agency began the process of ending the practice. Because adequate inspection facilities did not exist at the U.S.-Canadian border at that time, the Agency's action did not apply to destination inspection of imports from Canada until January 1, 1989. From late 1986 through Spring 1987, Agency staff members had discussions and meetings with parties who expressed interest in building border inspection facilities at the U.S.-Canadian border.

During 1988, many conversations were held with affected businesses about the FTA and its possible impact. The Agency conducted a pilot test from October 3 to October 28, 1988, to determine the feasibility of proposing new procedures for inspection of Canadian product, in preparation for the possible ratification of the FTA. On January 1, 1989, the Agency eliminated destination inspection of Canadian product and began to use the new inspection procedures for Canadian product.

Question: Is it correct to state that the USDA along with USTR knew in advance that the signing of the Free Trade Agreement with Canada would eventually lead to "No inspection" along the Border? If so, at what time was this known?

Answer: Neither USDA nor USTR knew in advance that the signing of the FTA would lead to the "open border" concept. Representatives of the U.S. and Canada first addressed this concept in February 1990. As soon as the agreement was approved USDA notified all interested parties.

Question: Did the USDA make any attempt to discourage individuals from building inspection stations knowing that the U.S. and Canada would attempt to "harmonize" standards of meat and poultry, effectively making inspection stations at the border unnecessary?

Answer: FSIS had always held that the Federal Meat Inspection and Poultry Products Inspection Acts required some type of import inspection. The FTA recognizes this fact: spot checks at the border are specifically authorized. As recommended by the Office of the Inspector General, FSIS performs import reinspection at port of entry using specially trained import inspectors to assure that inspection procedures are applied uniformly. Since the law, at that time, required some type of import inspection, and since FSIS must comply with the current law, FSIS proceeded on the assumption that the inspection stations would be necessary.

This assumption changed suddenly. Negotiations for the "open border" took place in February 1990 and were rapidly concluded. As a result of this change in the law, the need for the inspection stations under the one year test of the policy has disappeared or greatly diminished.

Question: What is the USDA doing now to assist those individuals who invested in border inspection stations?

Answer: USDA has no authority to provide any compensatory assistance to the individuals who invested in border inspection facilities.

Question: Have they been notified that under the new agreement no trucks will stop for inspection? If not, why not?

Answer: FSIS has discussed the impact that its reinspection procedures will have on the operations of the border inspection facilities as the procedures were developed. The border stations were notified as soon as FSIS was aware of the impact of the February 1990 agreement.

Question: These individuals have a significant investment in buildings which, for some are single purpose buildings. Mrs. Smith, you have been in the cattle business before, you know what it means to have to meet a payroll and pay for capital improvements through cash flow. What would you do if you had built a border inspection station in Sweetgrass, Montana or East Port, Idaho only to find out a year later that no inspections were to be done? Wouldn't you be looking to the USDA for some assistance and help to solve what is a serious cash flow problem? What does the USDA intend to do to assist these individuals who relied on USDA's information when making the decision to invest in these border inspection stations? If the USDA is not doing anything, where can these individuals turn?

Answer: USDA has no authority to provide assistance, nor is the Agency in a position to advise the operators of the border stations on their possible courses of action.

Question: As a final question, what do you expect will be the outcome of the one year trial program between the U.S. and Canada?

Answer: If the proposed "open border" rule is finalized, the Agency will conduct a one year evaluation exercise which may suggest refinements; but we expect that the "open border" program will be continued after completion of the one year trial.

QUESTIONS SUBMITTED BY SENATOR KASTEN

LABELING OF PIZZAS CONTAINING MEAT

Question: Last fall, you and I met in my office about pizza labeling. At that time, you said that you would pursue administrative action. While I have had indications that you have been studying the issue closely, I have seen no results to date. Where are you in the process of proceeding with a rulemaking?

Answer: After examining the issue, FSIS has decided not to propose regulatory action. Meat is a principal ingredient in meat pizzas, which as a meat food product, is regulated by FSIS. We do not believe that the use of a cheese substitute in a meat food product warrants a requirement for prominent labeling.

Certainly, all ingredients should be listed to advise consumers of the contents of a product. The ingredients statement provides a complete listing of the contents of a product and consumers know where to look on a product's label to obtain such information. For example, a consumer who wishes to avoid certain ingredients such as sulfites knows to look at the ingredient statement to find these substances. Similarly, a consumer interested in the presence of cheese and cheese substitutes, will find this information in the ingredients statement.

Question: Is it time to seek legislative relief for this problem now that it appears that the administrative process is stalled?

Answer: It is the conviction of USDA that present laws and regulations provide the consumer with adequate information on the composition of the product. We do not envision a need for additional legislation.

AGRICULTURAL MARKETING SERVICE

QUESTIONS SUBMITTED BY SENATOR BURDICK

FOOD SAFETY INITIATIVE

Question: The 1991 AMS budget request includes an increase of $15,816,000 for a food safety initiative tailored to test and track pesticide usage and residues.

How will the Agricultural Marketing Service assure that data received from these various sources is uniform so that it can be used by other interested parties? Is it useful to coordinate pesticide use and residue collection efforts?

Answer: Uniform data reporting formats and quality control procedures throughout the entire sampling, analytical, and data flow process will ensure the integrity and quality of the data. For example, samples will be collected as close as possible to the consumer level using uniform sampling protocols and federally-approved laboratory analyses. Quality assurance programs will be developed to ensure uniform and consistent laboratory operations and performance, and onsite laboratory visits and periodic check sample analyses will be conducted at each participating laboratory.

Coordination among the various government agencies and the States in their efforts to collect samples and to determine pesticide use and residue levels in food products is crucial to the success of the program. To assess the food safety concerns of agricultural producers and consumers, USDA, the Food and Drug Administration, and the Environmental Protection Agency agree that more accurate pesticide exposure data is needed to enhance the risk assessment process.

Under the food safety data initiative, AMS would enter into agreements with the States to use existing State pesticide residue programs as foundations for additional statistically-based analyses of residues. The collected information would be provided to Federal and State government agencies and to the general public. Information collected would also be provided to FDA to supplement and complement that agency's residue programs.

The collection of additional on-farm pesticide use data would be the responsibility of USDA's National Agricultural Statistics Service. The data also would be used to support water quality programs and assist in identifying pesticides which should be sampled by the States under the AMS program.

The impact on the Nation's food supply of alternative policies, programs, and practices that can affect food safety and other economic research on food safety will be analyzed by USDA's Economic Research Service.

The pesticide use data collected by NASS and the levels of pesticide residues on fresh fruits and vegetables collected by AMS would be incorporated by the Human Nutrition Information Service with the

Nationwide Food Consumption Surveys on individual eating patterns. Potential residue exposures for selected foods would be estimated for the average population, and by selected characteristics, such as age, sex, region of the country, income and other factors.

In addition, the information collected can be shared with our international trading partners in order to help prevent residue issues--no matter how minor from a public health perspective--from disrupting trade.

Overall, coordination of the AMS program with other related efforts involving pesticide use and residue will provide centralized, statistically-based data on pesticide residues for both public education and regulatory decision-making purposes. There is currently no central source for this data.

Question: Will AMS be coordinating its sampling of pesticide and chemical residues in foods with efforts already underway to test imported and domestic foods under the Pesticide Monitoring Improvements Act?

Answer: The AMS pesticide residue monitoring program is not designed to be a regulatory monitoring residue program. However, the information from the AMS monitoring program could be used as a basis for further Environmental Protection Agency or Food and Drug Administration regulatory program design and enforcement strategy by identifying fresh fruits and vegetables with violative levels of residues. AMS and other USDA agencies involved in this initiative--Human Nutrition Information Service, Economic Research Service, and the National Agricultural Statistics Service--will be coordinating their monitoring activities and sampling techniques with the FDA and the EPA. A list of prioritized pesticide compounds and a system for evaluating these compounds will be developed based on data provided by EPA, FDA, and the produce industry. This information will be used to determine which pesticide residues to test for and to identify discrepancies between pesticide residues applied and the residues that are being detected.

Question: Upon what methodological basis will AMS establish its statistically-sound pesticide residue data base? What portion of the funds requested for food safety will be spent on this data base?

Answer: The monitoring program will be designed to provide information concerning the frequency of residue levels in specified commodity/compound pairs. The number of samples obtained per commodity per year will be agreed upon by AMS and the participating States.

The entire $15.8 million requested in the fiscal year 1991 budget for the food safety initiative will be used to develop the data base. The hardware, software, and systems development costs for establishing a pesticide residue data base is estimated at $1.3 million. Quality control, laboratory reviews, and other federal program support costs are estimated at $1.2 million. The remaining $13.3 million will fund data collection by the States.

Question: Please provide a breakdown of the costs affiliated with the various projects proposed under the food safety initiative.

Answer: The first year's costs are:

A.	Payment to States..........	$ 13.3 million
B.	Program Support Costs......	2.5 million
	Total First Year Costs...	$ 15.8 million

A. Payments to States ($13.3 million). States will be asked to participate in the pesticide residue monitoring program. Initially, emphasis will be placed on selecting States that have existing sampling programs. Funds will be provided to the States to modify these programs or to develop new ones that meet the Federal government's needs. This approach will minimize start up costs for the national program and enable more rapid collection and analyses of samples. Special efforts will be made to have samples collected as close as possible to the consumer level. Laboratory analyses will be performed by State laboratories with assistance from private laboratories depending on the particular State. Quality assurance provisions will be developed at both the State and Federal levels in order to ensure uniform and consistent laboratory operations. Once the national program is underway, the majority of any additional program funds will also be distributed to the States in order to increase State participation and to enable sampling coverage of more food commodities and residue compounds.

B. Program Support Costs

1. Statistical Evaluation ($75,000). Pesticide residue data that is supplied by the participating States will be reviewed and evaluated by statisticians within AMS. This review will determine what statistical inferences can be made using the data. In addition, this review will indicate where changes to the sampling procedures are needed in order to improve the statistical basis of the monitoring program.

2. Data Management and Communication ($100,000). Uniform data reporting formats and quality control procedures throughout the entire sampling, analytical, and data flow process are necessary to ensure the integrity and quality of the data. Processes will be instituted at the State and national level to assure the integrity and quality of the data. In addition, electronic data communication links will be established between the States and headquarters staff in AMS.

3. Emergency Response ($100,000). The pesticide residue monitoring program must be able to assist Federal and State efforts in responding to emergency situations involving real or perceived contamination incidents. Close coordination between USDA personnel and officials in other Federal, as well as State, agencies will provide rapid sample analyses and communication of test results. Monitoring results of importance to the incident at hand will be readily available to the appropriate officials. Procedures to address emergency situations will be established during the first year of the monitoring program.

4. Quality Assurance ($175,000). A quality assurance program for laboratories that perform analyses for the monitoring activity will help ensure the integrity of the monitoring program. It is expected that State Departments of Agriculture laboratories will participate in sample analyses. A quality assurance program will help to establish consistency of laboratory operations so that results from other participating State laboratories will have the same degree of credibility. An effective quality assurance program will require onsite laboratory visits and periodic check sample analyses.

5. Methods Development and Evaluation ($250,000). The analytical capability of these monitoring programs will keep pace with technological developments for laboratory procedures, as well as meet the challenges to develop methods to analyze for new residue compounds. The methods will: (1) take no more than two to four hours of analytical time per sample, (2) have a minimum proficiency level at or below the tolerance, (3) have a quality assurance plan developed for the method, (4) be successfully validated through an interlaboratory study and acceptable to the scientific community.

The need for improved methods arises from constraints on existing methods used today in the following areas:

- Coverage: the ability to test for all significant pesticides.

- Resources: the availability of sufficient resources, such as personnel, instrumentation, and laboratory facilities, necessary to test for all significant pesticides.

- Confirmation: the ability to verify that a residue exists.

- Regulatory action: the ability to analyze samples in a timely manner so that violative commodities can be stopped before they reach the marketplace.

- Metabolites, new pesticides, and inert ingredients: the ability to test for pesticide metabolites and breakdown products, for new pesticides having different characteristics than those analyzed using existing methods, and for significant inert ingredients--if determined necessary.

Analytical methods exist today to analyze each pesticide residue on the food for which a tolerance has been established. Few single residue methods are suitable for everyday monitoring of the food supply for several reasons: a large number of pesticides are commercially available, more than one pesticide is commonly applied to a particular commodity, a pesticide residue may occur on a commodity for which the commodity has no tolerance, and Federal and State regulatory laboratories work with samples whose pesticide history is unknown.

To maximize coverage with given resources, AMS and State laboratories must rely on multiresidue methods for the majority of their analyses. Methods development research activities are needed to expand the number of pesticides and commodities that can be analyzed.

6. Hardware, Software, and Systems Development ($1.3 million). An information system is required to effectively and efficiently record, transcribe, store, and access the data that will be generated by the monitoring program. Developmental costs, as well as hardware and software acquisition costs, are necessary. The information system, once implemented, will become a critical component in the monitoring program. System maintenance and upgrade provisions will be necessary in subsequent years of the program's operations.

7. Administrative and Scientific Support ($500,000). During the first year of operation, a staff will be formed in AMS to oversee the monitoring program. As the program develops and expands by the addition of more States and residue and product pairings, additional staff will be needed.

Question: How many state contracts to sample and test commodities for pesticide residues are planned for 1991? Will information collected be centralized for federal government use? If so, how?

Answer: Presently, we are in the process of contacting the State Departments of Agriculture in New York, California, Texas, Michigan, Florida, and Washington concerning their participation in the food safety data initiative. The information collected under the AMS monitoring program will be shared with FDA and EPA to supplement and complement those agencies' pesticide residue programs. We anticipate publishing documents which detail the testing program and we will provide a list of compounds considered for each product tested, the methodology employed, the established EPA and FDA tolerance/action levels, and a summation of data by commodity. In addition, the data gathered will be used to identify residue trends and to identify problems within the produce industry where education, research or improved agricultural practices may be needed.

Question: What states are currently involved in pesticide monitoring of fruits and vegetables? Are these efforts conducted under the auspices of state and local organizations, or under the auspices of federal government agencies?

Answer: Various State Departments of Agriculture conduct a basic, problem-oriented pesticide residue monitoring program for agricultural commodities within that State, and in some cases their activities are coordinated with EPA and FDA programs. Sample collection sites vary and include field locations, wholesale markets, chain store distribution centers, packing sheds, retail markets and points of entry into the State. Most State monitoring programs are discretionary in nature as to the kinds and numbers of samples taken, and do not necessarily reflect seasonal variations in pesticide use, or application rates on a national and yearly basis.

In addition, State programs are usually incapable of providing data that can be used to estimate the general rate of pesticide residue tolerance violations. This is because there is no statistically valid overall plan by which samples are collected.

Two States that have monitoring programs for fresh fruits and vegetables are California and Florida. Private laboratories also provide pesticide residue testing for retail outlets. In additio some growers/shippers conduct their own private residue testing to ensure compliance with pesticide regulations.

Question: What coordinating mechanisms will be put in place to avoid duplication or inconsistency between different government agencies in collecting and developing information systems on pesticide residues?

Answer: The USDA agencies involved in this initiative--AMS, ERS, NASS, and HNIS--will be coordinating their monitoring activities with FDA, EPA, and the State Departments of Agriculture using prepared methodologies and sampling techniques.

FDA conducts regulatory monitoring of domestic and imported foods with emphasis on allocating samples where known or potential problems exist. By contrast, the AMS program will be statistically-based and have a nonregulatory emphasis.

Information collected under the proposed AMS program will be shared with FDA to supplement and complement that agency's residue programs; for example, violations will be reported to FDA for follow-up action.

FDA's Total Diet Study, a "marketbasket-type" study, involves the collection and analysis of approximately 250 representative table-ready foods, many of which are combination foods containing several commodities. Residues found in these representative foods from the Total Diet Study cannot be associated with any specific agricultural commodity.

The proposed AMS program will supply statistically-based residue information on specific commodities and will provide objective pesticide residue information to our international trading partners in order to help prevent residue issues--no matter how minor from a public health perspective--from disrupting trade.

The AMS program will also provide sound, scientifically-based information, including both pesticide residue data as well as pesticide usage data, to the Environmental Protection Agency to enable improved regulatory decisions through:

- more realistic risk assessments, in part by using actual data to compare with theoretical worst-case scenarios,
- better evaluations of the benefits and risks from pesticide use,
- deeper understanding of regional consequences resulting from restrictions on pesticide use, and

- stronger justifications for actions to approve or revoke approvals for use of pesticides.

The recent National Academy of Sciences report "Improving Risk Communication (1989)," stresses the importance of early, open, two-way communication on issues that affect people's lives. Pesticide use is one of those issues. The report also stresses the danger of delaying the process of information transfer until agencies feel that the information is complete. The consumer tends to equate a lack of information with a heightened sense of hazard. We would encourage the Department's use of existing USDA consumer education programs--the toll-free Meat and Poultry Hotline, the nationwide network of extension agents, and an extensive array of consumer publications to communicate to the consumers how common pesticides are used in agriculture, the level of pesticide usage, and the public health impact.

MARKET PROTECTION AND PROMOTION

Question: Over the past two years, AMS has been involved in an extensive voluntary testing and public information effort designed to eliminate *Salmonella enteritidis* from chicken layer flocks threatening the health and safety of consumers.

Would you please explain for the Committee the outcome of this voluntary effort?

- Answer: AMS is part of a joint FDA/USDA Task Force working on the *Salmonella enteritidis* problem. We have helped coordinate the efforts of AMS, the Animal and Plant Health Inspection Service, the Food Safety and Inspection Service, the Agricultural Research Service, the Cooperative State Research Service, and the Office of the General Counsel within the Department and have worked closely with our counterparts in the Food and Drug Administration and the Centers for Disease Control. A model *Se* testing program was approved by the task force and was mailed on August 31, 1988, to commissioners of agriculture, State veterinarians, and National Poultry Improvement Plan officials. FDA sent it to State Departments of Health.

Most States endorsed the model testing program and about 30 implemented testing in accordance with the program or with some modifications. However, we and others in the Department, FDA, and the shell egg industry, as well as some State health officials, were concerned that the voluntary program was not completely implemented and lacked standardization. Proper reporting and sharing of information gathered under the plan were of major concern. On February 16, APHIS promulgated regulations that require mandatory participation in a flock testing program for breeder flocks and implicated commercial layer flocks. An APHIS task force has been formed to implement the mandatory testing program.

Working with FDA, AMS continues to distribute safe egg handling bulletins to mass feeding establishments. The FSIS Hotline continues to answer consumer questions on this issue.

Question: Is there any relationship between your budget increase of $1.1 million for egg production inspection and the Salmonella outbreaks?

Answer: Control procedures for Salmonella enteritidis, or Se, have already been established. For example, shell eggs produced by commercial layer flocks which have been identified as infected with Se may be shipped interstate only to AMS-inspected egg products plants. Our inspection staff is involved in the control of these eggs at the egg products plant and ensures that products produced from these shell eggs are pasteurized to destroy Se and other harmful viable microorganisms that may be present.

Our budget request will provide funding to increase surveillance and testing of liquid, frozen, and dried egg products processing to provide assurance that eggs being processed for human consumption are safe. This funding will provide adequate personnel to monitor the correction of deficiencies found during egg processing plant inspection reviews by AMS. In addition, we plan to initiate a microbiological surveillance program to determine if foodborne pathogens are potential problems in egg products, an improved chemical residue surveillance program to investigate and control the movement of potentially adulterated products, and a methods development program to develop methods of rapid detection of chemical agents and microbiological pathogens. We will also evaluate the need for a Hazard Analysis Critical Control Points, or HACCP, program to determine critical points for controlling identifiable hazards.

Question: Will your increased inspection efforts be limited to egg processing plants? Please describe this program and how it will be administered.

Answer: Yes, increased egg products inspection efforts will be limited to egg processing plants. The inspection of egg processing activities will be improved and the need for implementation of HACCP procedures will be evaluated. HACCP procedures involve the identification of points critical to the control of identifiable hazards, and the establishment of systems for monitoring and controlling those critical points.

Funding is requested to provide personnel to monitor the correction of deficiencies identified in the areas of plant construction and layouts; and equipment design, material, or fabrication. Strict and prompt enforcement of program requirements is necessary to provide assurance of the safety and wholesomeness of egg products. The remainder of the additional funding requested is for microbiological and chemical surveillance.

PROCESSED COMMODITIES INVENTORY MANAGEMENT SYSTEM

Question: The 1991 budget includes a proposal for coordinated commodity purchasing, storage, and distribution information system between various USDA agencies.

Please explain how the new Processed Commodities Inventory Management System will work and the purpose for which AMS is requesting an additional $1.2 million in 1991.

Answer: AMS, the Food and Nutrition Service and the Agricultural Stabilization and Conservation Service are sharing in the development of the Processed Commodities Inventory Management System. Orders for the commodities are collected and prioritized by FNS. Purchases are made by AMS to stabilize market conditions and provide commodities for distribution through the domestic feeding programs of FNS, and by ASCS for price support programs. Notices to the vendors to deliver the products and most further contract monitoring and processing are done by ASCS. Significant volumes of data are exchanged between these agencies. PCIMS will provide one integrated system for use by all three agencies to accomplish these tasks. Each of the three agencies will update this integrated system as to their activities thereby ensuring that the resulting output will be consistent and timely.

The request for an additional $1.2 million in 1991 will cover the AMS portion of system design and programming costs paid to Arthur Andersen and Company as well as additional computer costs associated with system testing and the maintenance of multiple systems during the transition to the new system.

Question: Will states hook up to the inventory management system in submitting orders for the child nutrition programs?

Answer: No, orders will be submitted from the seven FNS regional offices.

Question: What are the benefits of this new system?

Answer: The primary benefits of PCIMS are to gain better control of commodity procurement through more accurate, consistent, and timely information; better analysis of bid alternatives; and increased flexibility in the form and type of commodity being procured.

COMMODITY PURCHASES

Question: In 1989, AMS purchased $9.5 million worth of fresh apples that were largely distributed through food banks and other food donation programs.

Was AMS responsible for certifying that these apples were Alar free?

Answer: AMS was not responsible for certifying that the fresh apples were Alar free. The responsibility for testing fruits and vegetable at the Federal level for the presence of such material lies with the Food and Drug Administration of the Department of Health and Human Services.

Question: Was AMS responsible for certifying that processed apples provided to the school lunch and other domestic food programs were Alar free? How is such certification accomplished?

Answer: AMS was not responsible for certifying that processed apples provided to the school lunch program and other domestic food programs were Alar free. Such certification was carried out through a self-certification program inaugurated by the

Processed Apples Institute, whereby apple processors required apple suppliers to submit statements that apples supplied were produced without the use of Alar. When such apples were tested by commercial laboratories and found to contain more that a trace amount of Alar, processors returned the apples to suppliers.

Question: Was this surplus removal necessary solely due to the publicity about Alar, or were other factors also responsible?

Answer: The surplus removal action diverting fresh apples was due to the fact that storage holdings of apples at the end of May 1989 were 53 percent greater than the preceding three-year average. With fresh apple sales continuing to lag, the amount of the surplus of 1988 crop apples continued to increase, and on July 25, 1989 the U.S. Department of Agriculture announced details of the apple assistance program to remove the surplus apples from normal channels of trade.

SUNFLOWER AND COTTON SEED OIL PURCHASES

Question: What is the amount of Sunflower and Cotton Seed Oil purchased to date in fiscal year 1990?

Answer: Although the USDA has approved sales totaling 15,000 metric tons of sunflowerseed oil for Algeria in fiscal year 1990, no bonus sunflowerseed oil has been purchased as yet. These sales will result in the USDA purchase of 2,825 metric tons of sunflowerseed oil, plus or minus five percent, depending on the exact quantity of the commercial sunflowerseed oil exported. To date, no sales have been approved for cottonseed oil in fiscal year 1990.

Question: Will AMS be working with FAS to assure the full amount appropriated is purchased in 1990 and 1991?

Answer: AMS' role is only to provide the funding for the Sunflowerseed and Cottonseed Oil Assistance Programs from Section 32 funds. The Secretary of Agriculture has delegated to the Foreign Agricultural Service, the authority to use Section 32 funds to purchase bonus oil in order to facilitate additional export sales of sunflowerseed oil and cottonseed oil in world markets at competitive prices. The expenditure of the full amount of funds appropriated is the responsibility of the FAS.

WHOLESALE MARKET DEVELOPMENT

Question: What is the status of the South Carolina Agribusiness Development Center? What is the full extent of AMS assistance to the Center?

Answer: Planning meetings have been held with South Carolina Department of Agriculture and other officials concerning design and evaluation of a new center at Columbia. As a part of this effort, USDA staff have assembled an initial list of wholesale food firms maintaining warehouse or processing facilities in the State. These lists have been forwarded to South Carolina so that initial contacts can be identified prior to initiating actual surveys.

AMS' role will be limited to participating in a cooperative study with the South Carolina Department of Agriculture and other parties. Initially, AMS will focus its efforts on studying food wholesale, processing and distribution facilities in the State and evaluating the need for long range development planning. The Agency does not fund the actual construction of such facilities.

Question: What progress has been made on the Maine Regional Terminal Market?

Answer: USDA staff have met with State marketing officials to outline the scope and objectives of the project. An agreement was reached to initially concentrate on identifying additional facilities needed for first stage processing and assembly of Maine agricultural products. Subsequent phases of the project will deal with the need for new wholesale food distribution facilities, including additional facilities to accommodate increased trade resulting from the United States-Canada Free Trade Agreement. In support of this latter phase of the project, specialists are assembling a tentative list of the wholesale food firms currently maintaining facilities in the State.

Question: Has your study of the Chicago Terminal Market been completed?

Answer: The Chicago Terminal Market study has not been completed, but it is progressing. To date, USDA staff have held planning meetings with Chicago City officials and industry representatives. Participants of those meetings defined an initial study area involving firms in or near the Fulton, South Water, and Randolph Markets. Researchers have tentatively identified 514 food firms maintaining facilities in this study area. Existing USDA survey forms have been modified and are being reviewed. A combined USDA/City of Chicago survey team is expected to initiate fieldwork after additional planning and training sessions.

Question: Please provide details on the progress of the Horticultural Producers Federation Market Program.

Answer: In 1989, six cooperatives participated in the Horticultural Producers Federation's centralized marketing program, and achieved gross sales of $1.777 million. These sales consisted of 204,144 boxes of five different vegetables, led by tomatoes at $976,000, followed by cabbage at $464,000, green peppers at $212,000, and squash at $100,000. Product quality was good except for some of the cabbage which had received too much rain. The Federation plans to market 477,300 units in 1990 at an estimated gross of $2.755 million. Much of the additional volume is expected to come from Sand Mountain Cooperative, Henegar, Alabama, as sweet corn and cucumbers. The Tennessee Valley Authority is providing assistance to the co-op members in acquiring irrigation equipment for the sweet corn. A number of farm groups in Arkansas, Mississippi, West Virginia, Tennessee and Oklahoma have attended the annual meeting and indicated that they are interested in joining the Federation. Some of the cooperatives have closed while others are building new facilities. A new cooperative has been started at Boonesville, Mississippi, and the cooperative at Fayettville, Tennessee is building a new packing plant. The Federation operated at a profit during the past two years in spite of excessively dry weather in 1988 and excessively wet weather in 1989.

MARKET NEWS PROGRAM

Question: Will the market news program be implementing a centralized information retrieval system? Will the full $535,000 requested in the budget be used for this system?

Answer: The Market News Information System will be a distributed database system rather than a centralized system. This means that market news information will be stored at separate locations for each commodity, but that all AMS market news data will be accessible for retrieval from any location. The full $535,000 requested will be used for this system.

Question: What parties will be able to retrieve information from this system? Will there be a charge for access of information from the system?

Answer: The system is being designed to better serve users by improving our efficiency in developing daily, weekly, monthly, and annual market news reports and by providing the information in a format that will be more convenient to users. The data base system will eliminate the necessity of repeated re-entering of data by both AMS and users by providing the information in a database format. Market news reports will be disseminated over systems currently in use. Therefore, all parties who have access to electronically disseminated market news reports will receive the information in the new format without additional cost.

Question: To how many parties is the tobacco news distributed? What is the fee proposed to be charged for tobacco market news?

Answer: Under the Tobacco Inspection Act, market news information must be provided free of charge to the grower. A basic report showing individual grade averages is currently provided at over 400 auction warehouses in 10 states. Approximately 300,000 growers have access to these reports either directly from AMS personnel working on the markets or from bulletin boards.

Tobacco market news reports are currently mailed to approximately 300 subscribers. These subscribers are members of the trade and the general public who pay $2.00 to $25.00 for a yearly subscription, depending on the report. Legislation is being proposed to charge user fees for all printed tobacco market news reports, including those now provided free to growers, to standardize the AMS market news program. Fees are currently charged for all cotton, dairy, fruit and vegetables, livestock and poultry printed reports.

GRADING AND STANDARDIZATION

Question: What is total amount of fees anticipated to be collected from grading and standardization activities in 1991?

Answer: The total amount of fees anticipated to be collected from grading activities is $127,851,000, which includes $40,162,000 for cotton and tobacco and $87,689,000 for dairy products, fruits and vegetables, livestock and meat, and poultry products. An additional $3,895,000 in fees would be required if standardization user fee legislation is enacted in FY 1991.

Question: In the future, will AMS grading and standardization incorporate information received from pesticide residue sampling?

Answer: There are no plans to incorporate information received from pesticide residue sampling into AMS grading and standardization activities, which are quality rather than safety oriented.

The thrust of the AMS food safety database initiative is to provide reliable information regarding pesticides residues to: (1) those agencies with health and safety responsibilities for food such as the FDA, EPA, FSIS, and AMS for egg products, and (2) to any other party with a need for or interest in statistically valid information regarding pesticides residues.

Question: For what range of products does AMS provide certification services? Does AMS certify both fresh and processed food products?

Answer: AMS provides certification services to users interested in ensuring that commodity purchases conform to contract specifications for quality and quantity. Therefore, certification services are provided for fresh and processed foods, including dairy products, fruits and vegetables, meat and meat products, poultry and poultry products, and shell eggs. Examples of food products certified include fresh fruits, vegetables, nuts and related products, canned, frozen, dried and dehydrated fruits and vegetables and other processed products such as coffee, tea, sugar and honey.

Question: What role does AMS provide in certifying food products purchased under federal food assistance programs, such as the school lunch and breakfast programs?

Answer: AMS is responsible for inspection and certification to determine compliance with USDA contract purchase specifications for products distributed under the Child Nutrition and Other Domestic Feeding Programs.

The various food products purchased under Federal food assistance programs must comply with applicable specifications developed specifically for each. AMS provides certification services to assure compliance with these specifications. In this regard, AMS graders and inspectors examine food products produced by vendors and determine compliance with quality, quantity, processing, packaging, labeling, and other requirements applicable to the product. Ultimately, they certify the acceptability and compliance of all products purchased before they are shipped to eligible outlets.

PAYMENTS TO STATES AND POSSESSIONS

Question: The 1990 appropriations act provided an increase for payments to states and possessions to promote domestic market development programs in and among the United States.

What specific additional projects received funding in 1990?

Answer: All project funding decisions for 1990 have not been made at this time and therefore, it is not possible to identify specific additional projects that have received funding. We are still receiving project proposals and will make funding decisions on a competitive basis since the dollars already requested exceed the funds available. We will be able to fund more projects this year than we have in previous years, due to the increased funding level.

Question: Will these projects assist in opening long-term market opportunities?

Answer: All of the project proposals have features that, if successful, should help to expand markets or improve marketing for farm products. The successful development of new products and marketing methods should have long-term impacts.

MARKETING AGREEMENTS AND ORDERS

Question: The budget proposes to save $8,269,000 by charging for federal administration of marketing orders and agreements by billing local market administrators or committees.

What portion of the administration of marketing orders and agreements are currently paid through producer and handler assessments?

Answer: Currently, none of the federal costs associated with the oversight of marketing agreements and orders are paid through producer and handler assessments; federal costs are funded by appropriation. However, industry assessments pay for the entire cost of market administrators and marketing order committees responsible for executing the programs on a daily basis.

Question: Will the additional charges include salaries and expenses of federal employees? What activities will these charges cover?

Answer: Federal costs for administering marketing agreements and orders include salaries and expenses of federal employees as well as other costs incurred in carrying out federal oversight responsibilities such as travel, utilities, supplies and equipment. AMS is responsible for ensuring the marketing agreements and order programs meet statutory requirements and serve the public interest.

QUESTION SUBMITTED BY SENATOR McCLURE

WOOL PROMOTION

Question: I realize that I have asked about this before but it is very important to a group in Idaho who are very active and vocal. I am inquiring again in regards to the request by the Idaho Woolgrowers Association to seek their own promotion and education contract with USDA under the Wool Act of 1954. I have read the law and it does indeed allow the Secretary to enter into agreements or approve agreements between trade Associations and others engaged in handling wool, sheep or their products for the purpose of developing promotion programs. I believe that the Idaho Wool Council, who would be the implementing organization, would do an excellent job, and only need your assistance in obtaining the contract to prove their ability. I fully support their efforts. Is there anything that the Idaho Woolgrowers or the Idaho Wool Council need to do currently to assist the USDA to accomplish this? Please continue to keep me informed as to the progress made on this matter.

Answer: No action is required of the Idaho Wool Growers Association or Idaho Wool Council at this time. Agreements under the National Wool Act are developed following the extension of the Wool Act in each "Farm Bill." These agreements then become the subject of a referendum among affected producers during the year following the extension of the Wool Act. Since Idaho has expressed an interest in a separate agreement, the Department has met with representatives of the Idaho WGA to discuss the steps involved. We will be happy to keep you informed of the progress made on this matter.

QUESTIONS SUBMITTED BY SENATOR KASTEN

MILK MARKETING

Question: As you may be aware, I introduced legislation last year that would remove the economic barriers to reverse osmosis skim milk. Currently, concentrated milk is treated as a Class III product instead of Class I product. The result is that the most efficient way to transport milk--without all of the water in it--is not a viable economic alternative.

What is the Department's position on changing milk marketing orders with respect to reverse osmosis skim milk?

Answer: The Department supports the consideration at a public hearing of a change in the federal order treatment of concentrated milk that is reconstituted for use in Class I products.

Question: Will Secretary Yeutter's announcement encompass reverse osmosis skim milk?

Answer: Yes, I expect that Secretary Yeutter's announcement will encompass various issues, including reverse osmosis skim milk. We will provide information on the announcement when it becomes available.

[The information follows:]

On March 29 Secretary Yeutter announced that a national milk order hearing will be held and invited proposals on several major issues, including the appropriate regulatory treatment of milk concentrated through reverse osmosis technology.

SUBCOMMITTEE RECESS

Senator **Burdick**. Our next hearing will be held Friday, March 30, in this same room at 10 a.m. We will hear from the Farmers Home Administration, the Federal Crop Insurance Corporation, and the Rural Electrification Administration.

The subcommittee stands in recess.

[Whereupon, at 11:35 a.m., Friday, March 23, the subcommittee was recessed, to reconvene at 10 a.m., Friday, March 30.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1991

FRIDAY, MARCH 30, 1990

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:05 a.m., in room SD-138, Dirksen Senate Office Building, Hon. Quentin N. Burdick (chairman) presiding.

Present: Senators Burdick, Kerrey, Cochran, Kasten, and Grassley.

DEPARTMENT OF AGRICULTURE

STATEMENT OF ROLAND R. VAUTOUR, UNDER SECRETARY, SMALL COMMUNITY AND RURAL DEVELOPMENT

ACCOMPANIED BY ROBERT E. SHERMAN, BUDGET OFFICER

FARMERS HOME ADMINISTRATION

STATEMENT OF LA VERNE AUSMAN, ADMINISTRATOR

FEDERAL CROP INSURANCE CORPORATION

STATEMENT OF DAVID GABRIEL, ACTING MANAGER

RURAL ELECTRIFICATION ADMINISTRATION

STATEMENT OF GARY C. BYRNE, ADMINISTRATOR

OPENING REMARKS

Senator BURDICK. Good morning, ladies and gentlemen. Today we continue our hearings on the fiscal year 1991 budget for Agriculture, Rural Development, and Related Agencies. Today we will review the budgets for the Farmers Home Administration, the Federal Crop Insurance Corporation, and the Rural Electrification Administration.

Our witnesses are Roland R. Vautour, Under Secretary, Small Community and Rural Development; La Verne Ausman, Administrator, Farmers Home Administration; David Gabriel, Acting Manager, Federal Crop Insurance Corporation; Gary C. Byrne, Administrator, Rural Electrification Administration; and Robert E. Sherman, Deputy Director for Budget, Legislative and Regulatory Systems of the USDA.

Welcome to you all.

As a broad overview, in comparison to 1990 funding, I note that the budget for all three of these agencies are markedly different than what was enacted for 1990. FmHA has new, subsidized guaranteed loan programs with sharp reductions in direct lending. FCIC has a current law budget, but the President also proposes the elimination of this program and the REA programs as we know them are practically eliminated.

We have statements from each of the agencies and the Under Secretary and they will be made a part of the record in full.

Mr. Vautour, I will ask you to make your oral statement, after which we will entertain questions from the subcommittee for each of the agencies. You may proceed.

Mr. Vautour. Thank you, Mr. Chairman. Good morning to you, Mr. Chairman and members of the committee. I appreciate the opportunity to discuss the fiscal year 1991 budgets for Farmers Home Administration, the Rural Electrification Administration, and the Federal Crop Insurance Corporation.

With me today are Mr. La Verne Ausman, the newly confirmed Administrator of Farmers Home Administration; Mr. Gary Byrne, the newly confirmed Administrator of the Rural Electrification Administration; and Mr. David Gabriel, the Acting Manager of the Federal Crop Insurance Corporation. I would like to submit their prepared statements for the record.

Senator Burdick. They will be received.

OVERVIEW OF FMHA REQUEST

Mr. Vautour. Mr. Chairman, I would first like to discuss briefly the Farmers Home Administration submission. The fiscal year 1991 Farmers Home Administration budget represents a continued commitment by the administration to those rural Americans who depend on the Federal Government to meet their temporary needs for financial assistance. It is a responsible budget designed to meet the current needs of the Nation's farmers and rural residents.

Farmers Home Administration ended fiscal year 1989 with an outstanding loan portfolio consisting of more than 1 million borrowers in the direct and guaranteed programs. Farm, housing, community facility, and business loans totaled $58.8 billion—about $3.5 billion less than the previous year. The decline is due to some of the writeoffs in our uncollectible debts and loans and the repurchase of loans by some communities and payments on outstanding loans.

The strength of the farm economy has had a noticeable effect on the Farmers Home Administration, most notably is the decrease in demand for farm operating loans. We expect that trend to continue and believe this to be a healthy and positive direction.

Progress was also made in Farmers Home Administration's nonfarm programs during fiscal year 1989. Most notable was the results of the required sale of assets from the rural development insurance fund. Community borrowers purchased over $1 billion of their own loans, making a securitized sale unnecessary. This demonstrates many borrowers are able to secure private sector financing, decreasing the need for subsidized Federal credit.

The 1991 fiscal year budget builds upon the progress achieved over the past few years. The budget maintains the momentum in the transition of farm loans from direct to guaranteed loans, and includes guaranteed loans for rural housing and community program borrowers. These guarantees will assist borrowers who are able to qualify for commercial credit with the Federal guarantee.

In addition, Farmers Home is proposing a new interest assistance program for guaranteed farm and housing loans. The program will not require a matching interest rate reduction by the lender and will provide more applicants an opportunity to qualify for guaranteed loans. This program will also give the lenders the security of a Federal guarantee and will free up time that will allow for increased FmHA staff participation in assisting socially disadvantaged new and beginning applicants who need help in becoming successful farmers and in no small measure, Mr. Chairman, returning Farmers Home Administration to the role that we think it does best, which is supervised credit. The combination of the new guarantee programs and Farmers Home Administration substantial level of direct loans will responsibly meet the demand.

RURAL HOUSING BUDGET

Regarding the rural housing portion of the budget, Farmers Home is proposing an interest-assisted guaranteed loan program to serve families with incomes that are 60 to 80 percent of median income and who cannot now qualify for a home loan without Federal assistance.

In addition, the agency will provide guaranteed loans to borrowers with incomes between 80 to 100 percent of median income to ensure that they are able to purchase homes. Farmers Home is also requesting funds for the direct low-interest loans for both home ownership and multifamily rental units that serve low and very low income families.

The budget submission proposes to continue the deep subsidy rental assistance program and initiate a housing voucher program to serve very low income families. The voucher program is a cost-effective way of assisting low-income families with greater flexibility in areas with available housing stock and would serve those borrowers who cannot afford either the direct, the guaranteed with subsidy, or the unsubsidized guaranteed loan program.

The housing budget request is substantially above the levels proposed over the last several years, and will assist about the same number of families as the programs that were enacted in 1989 and 1990.

RURAL DEVELOPMENT PROGRAMS

Funding is continued for rural development activities to provide small communities additional opportunities to strengthen their basic services along with the traditional water and community development loan and grant programs.

This budget also supports the intermediary relending program that makes low-interest loans to nonprofit and governmental entities to establish revolving funds. This program can be used to establish or expand small businesses in rural areas.

OVERVIEW OF REA REQUEST

Next, I would like to outline the budget submission of the Rural Electrification Administration. Since REA was established almost 55 years ago the agency has provided low-interest direct loans to borrowers who furnish electric and telephone services to much of rural America. These services make a major contribution in bringing rural America into the economic mainstream.

Mr. Chairman, I am happy to report the continued good financial health of the majority of REA borrowers. The financial stress experienced in some areas of rural America has not impacted most REA borrowers, who have enjoyed a steady improvement in their equity levels. Many REA borrowers can and do secure private sector loans without an REA guarantee through such lending institutions as CFC and the National Bank for Cooperatives. This is evidence that many are capable of paying cost-of-money rates and is a key consideration in the budget request.

We recognize that some borrowers may be unable to pay market rates, and the budget proposal provides a level of direct lending for electric and telephone borrowers that will provide an adequate safety net. Based on our review of distribution borrowers over the past 3 years, the funds provided are sufficient to meet borrower needs. The revolving fund will also guarantee rural electric loans by commercial lenders. In addition, the Rural Telephone Bank will provide guarantees of privately originated telephone loans.

The need to bring the Federal deficit under control has caused the administration to evaluate all Federal loan programs. Today, many programs are being redirected from direct loans to Government-guaranteed loan programs. Support in the form of Government guarantees encourages private financial institutions to become primary sources of credit. Guarantees stretch the limited resources and allow REA to meet the objectives of providing Federal credit assistance without excessive cost to the borrowers or the taxpayers.

Many of REA's electric generation and transmission borrowers are trying to recover from overexpansion that took place in the 1970's and the early 1980's. This is not only true of cooperatives but of investor-owned utilities as well. REA has worked extensively with defaulted borrowers to find ways to recover the funds owed. In several cases, workout agreements are in place and borrowers have rescheduled debt payments.

REA is in the process of reforming the loan program to prevent future losses and avoid the possible insolvency of the revolving fund. The agency is seeking ways to return the generation and transmission borrowers to their excellent repayment record that had been established prior to 1984, and efforts to minimize the losses on existing defaults and prevent future defaults have been redoubled.

The budget proposal that we are discussing today maintains assistance to financially needy borrowers and provides support to generation and transmission and other borrowers. The distribution borrowers are financially healthy, and the shift to a private sector guarantee program will have little effect on G&T borrowers who are already in the program. The proposal considers the well-being of REA borrowers and the cost of providing subsidized funds which has an impact on the taxpayers. It is a responsible and totally defensible budget.

OVERVIEW OF FCIC REQUEST

Finally, Mr. Chairman, I would like to discuss the budget submission for the Federal Crop Insurance Corporation. The administration has submitted two budgets for fiscal year 1991 for the Federal Crop Insurance Corporation, one based on existing legislation, the other based on proposed legislation. The forthcoming proposed legislation contemplates the termination of the current Federal Crop Insurance Corporation program effective with the 1991 crop cycle. For budgetary reasons, the administration has determined that the Federal budget can no longer afford to maintain the existing insurance program as well as annual ad hoc disaster programs. The budget submitted under existing legislation continues Federal funding for administrative and premium subsidy expenses of the program.

PREPARED STATEMENTS

Mr. Chairman, members of the committee, this is the end of my prepared statement. We would be pleased to answer any of the questions you may have, and I am sure that Mr. Byrne, Mr. Ausman and Mr. Gabriel will do their level best to answer the questions.

Thank you.

[The statements follow:]

STATEMENT OF ROLAND R. VAUTOUR

Good morning Mr. Chairman and members of the Committee. I appreciate the opportunity to discuss the fiscal year 1991 budgets of the Farmers Home Administration [FmHA], the Rural Electrification Administration [REA] and the Federal Crop Insurance Corporation. With me today are Mr. La Verne Ausman, Administrator of the Farmers Home Administration; Mr. Gary Byrne, Administrator of the Rural Electrification Administration; and Mr. David Gabriel, Acting Manager of the Federal Crop Insurance Corporation. I would like to submit their prepared statements for the record.

Mr. Chairman, I would first like to briefly discuss the Farmers Home Administrations's budget submission. The fiscal year 1991 Farmers Home Administration budget represents a continued commitment by the Administration to those rural Americans who depend on the Federal Government to meet their temporary needs for financial assistance. It is a responsible budget designed to meet the current needs of the nation's farmers and rural residents.

FmHA ended fiscal year 1989 with an outstanding loan portfolio consisting of more than one million borrowers in the direct and guaranteed programs. Farm, housing, community facility and business loans total $58.8 billion—about $3.5 billion less than the previous year. The decline is because of the write-off of uncollectible loans, the repurchase of loans by some communities and payments on outstanding loans.

The strength of the farm economy has had a noticeable effect on the Farmers Home Administration. Most notably in the decrease in demand for farm operating loans. We expect that trend to continue and believe this to be a healthy and positive direction.

Progress was also made in FmHA's non-farm programs during fiscal year 1989. Most notable was the results of the required sale of assets from the Rural Development Insurance Fund. Community program borrowers purchased over $1 billion of their own loans, making a securitized sale unnecessary. This demonstrates that many borrowers are able to secure private sector financing, decreasing the need for subsidized federal credit.

The 1991 fiscal year budget builds upon the progress achieved over the past few years. The budget maintains the momentum in the transition of farm loans from direct to guaranteed loans and includes guaranteed loans for rural housing and community program borrowers. These guarantees will assist borrowers who are able to qualify for commercial credit with the federal guarantee.

In addition, FmHA is proposing a new interest assistance program for guaranteed farm and housing loans. The program will not require a matching interest rate reduction by the lender and will provide more applicants an opportunity to qualify for guaranteed loans. This program will also give lenders the security of a federal guarantee and will free up time that will allow for increased FmHA staff participation in assisting socially disadvantaged, new and beginning applicants who need help in becoming successful farmers.

The combination of the new guarantee programs and FmHA's substantial level of direct loans will responsibly meet the demand.

Regarding the rural housing portion of the budget, FmHA is proposing an interest assisted guaranteed loan program to serve families with incomes that are 60 to 80 percent of median and who cannot now qualify for a home loan without federal assistance. In addition, the agency will provide guaranteed loans to borrowers with incomes between 80 to 100 percent of median income to insure they are able to purchase homes. FmHA is also requesting funds for the direct low interest loans for both home ownership and multi-family rental units that serve low and very low income families. The budget submission proposes to continue the deep subsidy rental assistance program and initiate a housing voucher program to serve very low income families. The voucher program is a cost-effective way of assisting low income families with greater flexibility in areas with available housing stock.

The housing budget request is substantially above the levels proposed over the last several years and will assist about the same number of families as the programs enacted in 1989 and 1990.

Funding is continued for rural development activities to provide small communities additional opportunities to strengthen their basic services, along with the traditional water and community development loan and grant programs. This budget also supports the intermediary relending program that makes low interest loans to nonprofit and governmental entities to establish revolving funds. This program can be used to establish or expand small businesses in rural areas.

Next I would like to outline the budget submission of the Rural Electrification Administration.

Since REA was established almost 55 years ago the agency has provided low-interest direct loans to borrowers who furnish electric and telephone services to much of rural America. These services make a major contribution in bringing rural America into the economic mainstream.

Mr. Chairman, I am happy to report of the continued good financial health of the majority of REA borrowers. The financial stress experienced in some areas of rural America has not impacted most REA borrowers who have enjoyed a steady improvement in their equity levels. Many REA borrowers can and do secure private-sector loans without an REA guarantee through such lending institutions as CFC and National Bank for Cooperatives. This is evidence that many are capable of paying cost-of-money rates and is a key consideration in the budget request.

We recognize that some borrowers may be unable to pay market rates and the budget proposal provides a level of direct lending for electric and telephone borrowers that will provide an adequate safety net. Based on our review of distribution borrowers over the past 3 years, the funds provided are sufficient to meet borrowers needs. The revolving fund will also guarantee rural electric loans by commercial lenders. In addition, the Rural Telephone Bank will provide guarantees of privately-originated telephone loans.

The need to bring the Federal deficit under control has caused the Administration to evaluate all Federal loan programs. Today, many programs are being redirected from direct loans to Government guaranteed loan programs. Support in the form of Government guarantees encourages private financial institutions to become primary sources of credit. Guarantees stretch the limited resources and allow REA to meet the objectives of providing Federal credit assistance without excessive cost to borrowers or the taxpayers.

Many of REA's electric generation and transmission (G&T) borrowers are trying to recover from over-expansion that took place in the 1970's and early 1980's. This is not only true of cooperatives but of investor-owned utilities as well. REA has worked extensively with defaulted borrowers to find ways to recover the funds owed. In several cases, workout agreements are in place and borrowers have rescheduled debt payments.

REA is in the process of reforming the loan program to prevent future losses and avoid the possible insolvency of the revolving fund. The agency is seeking ways to return the G&T borrowers to their excellent repayment record that had been established prior to 1984 and efforts to minimize losses on existing defaults and prevent future defaults have been redoubled.

The budget proposal that we are discussing today maintains assistance to financially needy borrowers and provides support to G&T's and other borrowers. The distribution borrowers are financially healthy and the shift to a private sector guarantee program will have little effect on G&T borrowers who are already in the program. The proposal considers the well being of REA borrowers and the cost of providing subsidized funds which has an impact on the taxpayers. It is a responsible and totally defensible Budget.

Finally, Mr. Chairman, I would like to discuss the budget submission for the Federal Crop Insurance Corporation.

The Administration has submitted two budgets for fiscal year 1991 for the Federal Crop Insurance Corporation; one based on existing legislation; the other based on proposed legislation.

The forthcoming proposed legislation contemplates the termination of the current FCIC program effective with the 1991 crop cycle. For budgetary reasons the Administration has determined that the federal budget can no longer afford to maintain the existing insurance program as well as annual ad hoc disaster programs. The budget submitted under existing legislation continues federal funding for administrative and premium subsidy expenses of the program.

Mr. Chairman and members of the committee, this is the end of my prepared statement. We will be pleased to answer any questions you may have.

STATEMENT OF LA VERNE AUSMAN

Good afternoon, Mr. Chairman and Members of the Committee. The Under Secretary and I do, indeed, appreciate this opportunity to discuss our 1991 fiscal year budget request and to report on our progress in helping provide credit and financial resources to support a basic quality of life in rural America.

In the 1991 fiscal year, we plan to use those resources to increase the opportunities that are available to our borrowers to meet the credit needs of agriculture and the needs for basic home and community services. This will be done without hindrance to existing programs and without creating new and burdensome demands on the budgetary resources of the Nation.

We feel that this is a sound budget proposal that requests more program authority than we actually used in 1989. It strongly supports the traditional programs and proposes new ways to respond to current needs.

We are proposing to add guarantee loan authority to our traditional rural home ownership program. In addition, we are proposing a new interest assistance program for guaranteed loans in the farm and housing programs that will allow us to serve applicants who could not qualify for a loan from a private lending source without additional assistance and yet do not require the level of credit assistance and supervision in our traditional direct loan programs. This will benefit us in two ways. It will lower the immediate budget impact of direct lending, and it will free our field staff to work with and help new and beginning borrowers and socially disadvantaged applicants become and remain successful farmers and homeowners.

In 1989, the Farmers Home Administration ended the fiscal year with an outstanding portfolio of $58.8 billion in farm, rural housing, and community program loans to more than one million borrowers.

Farm loans accounted for $25.8 billion, including more than $3 billion in guaranteed loans. And, as in the past several years, our efforts were concentrated on the farm borrowers who were seeking to have their debt restructured and their loans restored to a current status as we undertook full implementation of the Agricultural Credit Act of 1987.

In that regard, Mr. Chairman, I can report that we have resolved the accounts of more than 32,500 farm borrowers whose loans were more than 180 days delinquent. Of those, 4,600 received debt restructuring with write-downs amount to more than $796 million, and 5,000 were approved for buy-outs resulting in write-offs of over a billion dollars.

Under the write-down provision, we can reduce the debt to the net recovery value of the collateral if that will restore the borrower to a sound cash-flow position and if the borrower has acted in good faith with us in safeguarding security.

In net recovery buy-out, the borrower is given an opportunity to buy out the loan at its current market value less prior liens and costs associated with acquiring, maintaining and disposing of the inventory property.

Almost 10,000 farm borrowers received some form of adjustment in their debt, such as consolidation of loans, rescheduling/reamortization and deferrals before reaching the write-down or buy-out stages. The resolved accounts also include almost 5,000 that were paid current, more than 1,400 that were paid in full, and over 6,300 that were debt settled.

A number of cases are still in the mediation and appeals process, still others are awaiting borrower decisions such as whether to pursue buy-outs, and we have yet to hear from some borrowers as to what course they would like to take.

All in all, the processes prescribed by the Ag Credit Act are at work. The Act is helping many farmers who suffered economic stress through circumstances beyond their control—as it was intended to do.

Combined with that information, I am pleased to report that farm loans obligated in the 1989 fiscal year amounted to $2.2 billion, with guaranteed loans accounting for 53 percent. It was the third year in which guaranteed loans were more than one-half the total.

Two other forms of special assistance were continued during the year. The first one is "Operation Assist". This program is a standard duty for county supervisors. Under that program, if it looks like a borrower should be qualified for a guaranteed loan, the county office staff personally escort the applicant to a bank or cooperative lender to help obtain a guaranteed loan. To further help potential borrowers, we also prepare the bank loan forms in advance.

The second, the interest buy-down program, was again successful in helping farmers in a particular financial niche. Under this program, we can match a reduction in interest of up to 2 percentage points granted by a lender if that will help restore the borrower to a sound cash-flow position. This program was enacted in the Food Security Act of 1985 and was extended for three additional years by the Ag Credit Act of 1987.

Although much time and effort was devoted to helping farm borrowers restructure their debt and renew the viability of their operations, we continued our strong support for the rural housing and community programs and plan new initiatives to expand the opportunities for participants in all three programs.

BUDGET HIGHLIGHTS

The budget request for fiscal year 1991 proposes an overall program level of $6.1 billion, of which $3.4 billion is requested for farm programs, $2.1 billion for housing and housing support programs and $646 million for community and business programs.

Farm loan delinquencies remain large, about $8 billion, but we believe we have made a good start in bringing that problem under control through the servicing provisions of the Ag Credit Act and other options available to borrowers.

In the 1989 fiscal year, our write-offs for uncollectible direct farm loans totaled $3.1 billion, about one-half of which was attributable to Ag Credit Act write-down and buy-out provisions. The remaining half was attributable to normal debt settlements after voluntary liquidations.

FARM PROGRAMS

The farm program budget request for fiscal year 1991 is $3.4 billion. Within this total, $3.1 billion is for operating loans and $188.5 million for farm ownership loans. To continue the shift to guaranteed loans, we are proposing that $2.6 billion in operating and $150 million in farm ownership be in the form of guaranteed loans.

We are doing everything we can to provide more servicing where needed—including asking for more people. This shift to guaranteed lending for those borrowers who do not need the intensive servicing is an important way to help.

To induce lenders to make guarantees available to more borrowers, we plan to offer interest assistance averaging 3 percentage points in the guaranteed loan programs. The basic legislative authority for this program already exists under current law. The interest rate assistance will bring the interest rate down near the rate on a regular direct loan, if necessary, to help the borrower achieve a positive cash-flow. We propose to offer interest assistance on guaranteed operating loans totaling $350 million and on farm ownership loans totaling $50 million.

Since direct loans have an immediate impact on budget outlays, the move to guaranteed loans with a subsidy will substantially reduce outlays while at the same time provide borrowers with basically the same interest rate. This would mean less cost while helping the borrower obtain affordable credit, and also provides an opportunity for the borrower and lender to begin a long-term business relationship.

The regular interest rate buy-down program authorized by the Food Security Act of 1985 will continue. The state mediation program begun last year is continued at $2 million, and the request for emergency disaster loans is $25 million. The proposed funding is expected to be consistent with the demand for such loans.

The budget includes an appropriation of $6.0 billion to reimburse the Agricultural Credit Insurance Fund for losses sustained in fiscal year 1989. The losses are due to interest rate differentials between our loan rates and the cost of money and significant loan write-offs as mentioned earlier. Interest differentials and related losses amount to $2.9 billion and $3.1 billion related to write-offs.

RURAL HOUSING PROGRAMS

The 1991 budget proposal for housing will help meet low-income housing needs in rural America by providing assistance to about the same number of families as programs in recent years. We are encouraging private sector lending with a Federal guarantee, and are proposing to provide the interest rate assistance for guaranteed loans to low income borrowers, whose incomes are between 60–80 percent of median.

This is a four tiered housing program which more adequately serves the needs of rural residents up to 100 percent of median income. At the top of this income scale, about 80 to 100 percent of median income, guaranteed loans can serve younger borrowers starting out and others who do not need heavy Federal involvement and yet cannot qualify for a housing loan without a guarantee.

At the next lower income tier, about 60 to 80 percent of median income, we are requesting funds for interest rate assistance to help guarantee loan applicants who cannot qualify for a housing loan at market rates. The interest assistance will be between 1 and 8.5 percent and will average 5 percent so that their effective interest rates can be about the same as they would pay under the direct loan program.

Next, we are requesting $609 million for the traditional direct home ownership program for low and very low income rural applicants with incomes below 60 percent of median. Multi-family housing direct loans will be funded at $391 million, and we plan to target this assistance to communities with the greatest need for housing assistance.

As the final program tier, we are proposing to continue the rental assistance program at the $270 million level for low and very low income tenants of rural rental housing and in those areas where suitable housing stock are available, we are proposing to introduce the housing voucher concept. We are requesting $190 million for the housing voucher program to assist families in renting apartments and single family dwellings.

To reimburse the Rural Housing Insurance Fund for interest assistance and other losses, the budget requests $2.7 billion.

RURAL DEVELOPMENT PROGRAMS

The fiscal year 1991 budget includes $646 million for community and business programs, $376 million for direct loans, $170 million for guaranteed loans of which $70 million was made available by the Disaster Assistance Acts of 1988 and 1989, and $100 million for water and waste grants.

The guaranteed loans would be available to the more financially secure communities that can obtain credit from private lenders with minimal Federal assistance. Our experience with the loan purchase program the last several years demonstrated that many communities are able to afford private credit and do not have to rely on Government-subsidized credit.

We are requesting $350 million for water and waste loans. Of this amount $300 million is direct and $50 million is for guaranteed loans. For the community facility program, we are requesting $96 million to be divided into $46 million for direct loans and $50 million in guaranteed loans. Both direct water and waste disposal loans and direct community loans will be targeted to those communities with the greatest need.

Lending through the Rural Development Loan Fund would be increased from $19 million in 1990 to $30 million in 1991. These direct loans are offered at one percent so that the nonprofit entities and jurisdictions that use the program can build regional or local revolving funds and still offer extremely low interest rates. This is intended to replace the business and industry guaranteed loan program.

An appropriation of $1.7 billion is requested for reimbursement to the Rural Development Insurance Fund for interest assistance and other losses, of which $923 million is associated with the discount purchase program in fiscal year 1989.

SALARIES AND EXPENSES

The budget request includes a direct appropriation of $448 million within total Salaries and Expense costs of $602 million to cover the cost of administering the overall loan portfolio and providing credit counseling and services to our more than 1 million borrowers.

While approximately 2,200 FmHA offices are automated and now utilize computers on a daily basis to provide improved loan making and loan servicing to rural Americans, FmHA continues to recognize that people are its most valuable resource. To enable us to keep pace with the complexities of our programs and to meet legislated mandates, we are asking for 425 additional staff years.

This increase, coupled with the shift to more guaranteed lending, can significantly increase our effective field force to work with borrowers who need extra help in obtaining and keeping needed credit. The employees associated with these staff-years are expected to be hired this year so that they can be trained and available to increase our loan servicing efforts for the full fiscal year of 1991.

Mr. Chairman, our 1991 budget request is, above all, realistic. While meeting the basic needs of the rural residents and communities of the Nation, it recognizes the constraints we must live with to diminish the Federal deficit. We believe our request accommodates the needs of Rural America and the fiscal limitations we all face today.

This concludes my formal statement. We have attached our Brief History of FmHA publication which has charts and other information on program activity through fiscal year 1989. I will be happy to answer any questions. Thank you.

BIOGRAPHICAL SKETCH

LA VERNE AUSMAN

President George Bush appointed La Verne Ausman Administrator of the USDA's Farmers Home Administration on March 13, 1990.

Previously, Ausman served as Deputy Under Secretary of Agriculture for Small Community and Rural Development from April 1987 to April 1989. His first assignment at USDA was in May 1986 as Director of Intergovernmental Affairs.

Mr. Ausman was Secretary of the Wisconsin Department of Agriculture, Trade, and Consumer Protection from 1981 to 1986. Other public service included a year as District Director for U.S. Congressman Steve Gunderson, two years as Commissioner, Wisconsin Labor and Industry Review Commission and four years as a State Representative in the Wisconsin Legislature. He has also served as a Town Supervisor and an Agency School Committee Chairman.

Born in 1930, Ausman grew up on the family farm in Elk Mound, Wisconsin. In 1949, he and his wife Bev began farming in partnership with his father George Ausman. In 1963, his father retired and the Ausmans operated the dairy-beef farm until 1977 when they were joined by their son John in a corporate arrangement that continues today. The Ausman family farm has been operated continuously since 1860.

He has served as president of a number of agricultural organizations including Dunn County Farm Bureau, the Tri-State Breeders Cooperative, and the Midwest Association of State Departments of Agriculture. He was also a member of the Board of Directors of the Wisconsin Farm Bureau and Chairman of the State Board of Soil and Water Conservation Districts. As an officer in the Mid-America International Agri-Trade Council, Ausman led a number of trade missions to Europe and Asia.

The Ausmans served as 4-H Club leaders for 25 years. Among his many awards are the 4-H Alumni Award, the Future Farmers of America Blue and Gold Award, an Honorary State FFA Degree, the Distinguished Agriculturalist Award from the University of Wisconsin-River Falls. He is also a Distinguished Service Member of the Alpha Gamma Rho national agricultural fraternity.

La Verne and Bev Ausman live in Oakton, Virginia. They have two grown children; John and his wife Mary live on the farm in Elk Mound and Georgia Ann who is married to Dr. John Brancroft lives in Cincinnati, Ohio.

STATEMENT OF DAVID GABRIEL

Mr. Chairman and members of the Subcommittee: It is a pleasure for me to appear before this subcommittee to present the 1991 Budget for the Federal Crop Insurance Corporation.

The Federal Crop Insurance Corporation is submitting for fiscal year 1991, budget proposals under existing legislation and under proposed legislation.

Under forthcoming proposed legislation, the administration will propose the termination of the current program effective with the 1990 crops. Under existing legislation, Federal funding would continue for the administrative and premium subsidy expenses of the program.

I will discuss in detail, the budget request under existing legislation.

CROP YEAR 1989 EXPERIENCE

Insurance sales rose in 1989, largely impelled by the experience of the 1988 drought and also linkage to the receipt of disaster assistance. The President's 1991 budget submission reflected a 1989 premium of $800 million with a loss ratio of 1.7, and indemnities of $1.4 billion.

More recent data reflect premiums totalling $815 million and a loss ratio of 1.5. implying total indemnities of $1.2 billion.

The 1991 budget projections reflect the expectation that insurance sales will fall back toward historical levels from their post-drought peak. Participation since 1980 has averaged less than a third of those eligible, rising to close to half for 1989. Experience for the 1990 crop year is as yet unknown, but is expected to be closer to $650 million in premium then $800 million in 1989. The 1991 budget figures project $677 million in premium (allowing for inflation over 1990) with a loss ratio of 1.5, reflecting historical experience.

Since the enactment of amended legislation in 1980, insurance has expanded from 1,676 counties to over 3,000 counties in 1989. County programs have increased almost 450 percent, from 4,629 in 1980 to 20,507 in 1989. Crop insurance was available in 50 states in 1989 and in all agricultural counties on acreage previously covered by disaster payments.

Acres insured, insurance in force, and premium have also increased substantially. In 1980, acres insured were 26.6 million compared with over 99 million for crop year 1989. Insurance liability in force has also increased for the same period, from $3 billion in 1980 to $13.3 billion in 1989. Premium has increased from $158 million in 1980 to over $800 million in 1989.

The President's 1991 Budget submission for crop year 1989 insurance operations reflected premiums for the reinsurance share at $696 million and indemnities of $1.2 billion, with the remaining premiums of $104 million handled by master marketers with indemnities of $176.8 million. The loss ratio for both delivery systems was estimated at 1.70; total indemnities, $1.4 billion.

Current estimates for 1989 reflect premiums totaling $815 million with $724 million from reinsurance, and $91 million from master marketers and a combined loss ratio of 1.50 which would result in reinsurance indemnities of $1,083 million and master marketer indemnities of $139.5 million.

Our budget request for fiscal year 1991 is as follows:

FISCAL YEAR 1991 BUDGET REQUEST, CURRENT LEGISLATION, ADMINISTRATIVE AND OPERATING EXPENSES

If we were to continue to offer crop insurance in 1991, under existing legislation program costs would be in the neighborhood of $1 billion. Close to half of that amount, about $430 million, would go to cover administrative and operating expenses, which includes $218 million for commissions paid to the private insurers who sell and service about 87.5 percent of the policies and $24 million for sales and service expenses on federal policies which make up the remaining 12.5 percent. Another third of that total $900 million would be required to pay excess losses, meaning that portion of indemnities not covered by producer paid premiums covered plus subsidy. The need for these funds, which are transferred from the Commodity Credit Corporation, arises from the chronic actuarial unsoundness of the program. A final $170 million, 20 percent of the total estimated cost, is requested to cover the 25 percent subsidy of farmer premium.

I will now provide a more detailed breakdown of the appropriation requested to cover commissions, operating expenses, and premium subsidy.

—$314.4 million for Administrative and Operating Expenses to fund the expanded crop insurance program, including,

—$218.0 million for reinsurance expense reimbursements,

—$24.2 million for FCIC master marketing expenses and loss adjustment contracting, and

—$5.2 million to reimburse ASCS for services performed under the ASCS National Agreement.

These amounts total $247.4 million, vary directly with the volume of business, and account for 79 percent of the Corporation's total request for administrative and operating expenses.

—$67.0 million will be used for the expenses of the Federal Crop Insurance Corporation to maintain field underwriting offices, field service offices, field compliance offices, the Kansas City Operations office—which includes corporate computer support, actuarial activities, claims processing, office automation, and management information costs—and the Headquarters staff.

In total, our fiscal year 1991 request for Administrative and Operating Expenses represents an increase of $91.7 million over the fiscal year 1990 appropriations. This increase is directly related to the premium level and provides for full funding of program expenses in the A&O account that were previously paid out of the Fund.

PREMIUM SUBSIDY

—$169.3 million for premium subsidy for fiscal year 1991. This amount represents 25 percent of the expected premium of $677 million, as authorized by the Federal Crop Insurance Act of 1980, as amended. The $677 million premium level would provide crop insurance to an estimated 81.1 million insured acres.

This represents an increase of $35.2 million over the fiscal year 1990 premium subsidy appropriation, which was based on a lower premium level projected at the time the 1990 budget was prepared. In fiscal year 1990, the premium subsidy actually required was $162.5 million with only $134.1 million requested and provided by appropriation. The fiscal year 1990 unfunded portion will be financed out of the Fund's unearned excess premium subsidy account. In order to maintain a proper reserve in the Fund, it is necessary to obtain the subsidy by appropriation in fiscal year 1991.

REIMBURSEMENT OF PRIOR YEAR ADMINISTRATIVE EXPENSES PAID FROM FCIC FUND

—$117.4 million for reimbursement to the FCIC Fund for administrative expenses incurred in fiscal year 1989, but not previously reimbursed.

USE OF COMMODITY CREDIT CORPORATION FUNDS

—FCIC is currently reflecting the use of Commodity Credit Corporation funds in the amounts of $150 million in fiscal year 1990 and $300 million in fiscal year 1991 as a reserve against continued, unavoidable losses in crop years 1990 and 1991.

TOTAL REQUEST

This represents a total appropriation request for fiscal year 1991 of $601.1 million for on-going programs. This request is $215.5 million higher than the total 1990 appropriations for on-going programs. This request is necessary in order to maintain the financial stability of the Corporation.

FISCAL YEAR 1991 BUDGET REQUEST—PROPOSED LEGISLATION

The Administration proposes to terminate crop insurance sales with the 1990 crop year. In 1991, growers would be protected from catastrophic loss by a safety net provided by proposed permanent disaster assistance legislation.

Under the proposed budget, insurance sales would cease after the 1990 Crop Year. Budget Authority will include sufficient funding to maintain staff-years at the current level of 866 through fiscal year 1991. The outlays for fiscal year 1991 will be limited to $450 million to cover prior year obligations and 1991 administrative costs.

This concludes my statement. We will be glad to answer any questions or furnish any additional information that you may desire.

BIOGRAPHICAL SKETCH

DAVID W. GABRIEL

Formerly a resident of Aurora, Colorado, David W. Gabriel is currently the Acting Deputy Manager and the Assistant Manager for Program Administration for the Federal Crop Insurance Corporation (FCIC). He is responsible for directing FCIC's marketing and reinsurance functions in addition to serving as Acting Deputy Manager for the Corporation. Mr. Gabriel is relatively new to the Federal Crop Insurance Corporation having been appointed in August of 1986.

Before coming to Washington, Mr. Gabriel retired in the Spring of 1986 from the National Farmers Union Insurance Companies in Denver, Colorado, having been the Senior Vice President of the property-casualty companies for the past 6 years.

From 1976 to 1980, Mr. Gabriel was Vice President and Manager of the Crop-Hail Insurance Department of the National Farmers Union Insurance Companies, where he managed the underwriting, marketing, and reinsurance functions.

In the 1960's, Mr. Gabriel managed the merger of the farm property and crop-hail divisions of Fireman's Fund and American Insurance Companies, including the implementation of new systems and procedures.

Mr. Gabriel was a member of the Executive Committee and President of the National Crop Insurance Association. He has been chairman of the Actuarial and Forms Committee and a member of the Executive Committee of the Crop Hail Insurance Actuarial Association.

Mr. Gabriel started his insurance career as a special agent and supervisor for the Home Insurance Company in 1948, after finishing college and 2½ years in the Army Air Force during World War II.

He received a Bachelor of Arts degree from Parsons College in Fairfield, Iowa.

Mr. Gabriel lives with his wife Carol in Arlington, Virginia.

STATEMENT OF GARY C. BYRNE

Mr. Chairman and members of the Subcommittee, I appreciate this opportunity to present the 1991 Budget and Program Proposal for the Rural Electrification Administration.

REA's accomplishments are many, and each year our borrowers' overall financial health steadily improves. The financial strength of the distribution and telephone borrowers is well documented in operating and financial information submitted to REA by the borrowers. The rural electric distribution and telephone borrowers from REA are in a financial condition that compares very favorably with the private electric companies and commercial telephone companies that do not borrow from REA. For example, as of December 1988, electric distribution borrowers reported:

- —$856 million of net margins, a 172 percent increase over 10 years ago. The 1989 operating results have not yet been received from borrowers; however, we anticipate that the 1989 results will be comparable to 1988.
- —$8.5 billion in composite net worth, representing 38 percent of total assets. Ten years ago, net worth was equal to only 31 percent of borrowers' assets. We estimate that for the year ending in December 1989, borrowers' net worth will exceed $9 billion.

REA telephone borrowers also showed strong financial gains through December 1988:

- —Net margins were $691 million, a 10-year increase of approximately 300 percent.
- —Net worth was $3.8 billion, or 35 percent of total assets. This represents a 10-percent increase in borrowers' net worth to assets in the last decade.

Many of these borrowers continue to receive loans at 5 percent interest from the Rural Electric and Telephone Revolving Fund (RETRF) and the Rural Telephone Bank. Yet, they are capable of satisfying their credit needs from other sources; and many have obtained financial backing from other lending organizations.

The goals outlined in the President's proposal for REA are designed to:

- —Continue the basic role of REA in providing financial and technical assistance to borrowers.
- —Retain a direct loan program sufficient to the needs of electric borrowers who require Government assistance because of their financial condition. This will form a safety net for the borrowers.
- —Reduce the budgetary impact of Government lending programs by moving REA's financially healthy borrowers from direct Federal loans to guaranteed loans from the private sector.

—Move all telephone lending into the Rural Telephone Bank. The Bank would make direct loans as well as guarantee private-sector loans. Currently, RTB direct loans are at 5 percent which is the same rate charged by RETRF.

These goals are common to many Federal lending programs. An effort is being made to insure access to the private sector by providing guarantees while reducing the Federal deficit by limiting direct lending. This movement to federally backed rather than direct funding is being proposed at a time when many REA borrowers are in a position to obtain private-sector funds.

FY 1991 BUDGET PROPOSAL

RETRF Direct Loans.—Recognizing that some of our borrowers may be unable to obtain funds in the private market, the 1991 request includes $200 million for direct electric distribution loans at a 5 percent rate. These funds will be available for financial hardship cases.

RETRF Guarantee of Loans made by Private Lenders.—The proposed budget supplements the direct lending program with partial guarantees of private-sector loans. Currently, distribution borrowers obtain up to 30 percent of their loan needs from the Banks for Cooperatives, the National Rural Utilities Cooperative Finance Corporation, and other private lenders. A guarantee by the REA will encourage the private sector to make funds available to borrowers. RETRF will partially guarantee principal and interest repayments of privately originated loans as follows: $700 million will be available for power-supply loans with a 90-percent guarantee; $400 million for electric distribution loans with a 70-percent guarantee.

RURAL TELEPHONE BANK (RTB)

Interest Rate Change.—The Rural Telephone Bank is a $1.5 billion agency of the Government. It is a supplemental source of loan funds for telephone borrowers who are able to pay a higher interest rate than that charged by RETRF. Under current law, the Bank is making loans at a 5 percent interest rate which is the lowest permissible rate and the same as RETRF.

The Bank's formula-driven interest rate is even lower than the minimum established by law because of the 2-percent cost of capital provided by stock purchases of the Government. This creates a situation whereby borrowers are obtaining 5-percent loans from the Rural Telephone Bank and the RETRF. Telephone borrowers enjoy very sound financial health and are well able to pay higher interest rates. Therefore, legislation will be proposed to change RTB interest rates such that the net charge to borrowers equals yields on Treasury rates of comparable maturity.

Direct Loans and Private-Sector Guarantees.—The proposed program for the Rural Telephone Bank is $125 million in direct loans and $200 million in partially guaranteed private-sector loans. An appropriation to purchase additional shares of Class A Stock is not being requested. The Bank has already been capitalized with $564 million and additional funds are not needed to ensure the health and stability of RTB.

REIMBURSEMENT TO THE REVOLVING FUND (RETRF)

The Fund currently enjoys a strong equity position; therefore, no appropriation is needed to subsidize its operations. This equity position has been sustained over the past 3 years by appropriations of $900 million that replaced funds disbursed for defaulting generation and transmission (G&T) borrowers. Looking at the REA program today, it is worth noting that lack of anticipated growth and high interest costs experienced during construction for some of the G&T borrowers has created financial difficulties that need to be overcome. We have been working with troubled borrowers to seek solutions to the problems that placed them in default. Many now have workout agreements and are currently making debt payments. We will continue with a strong effort to seek recovery of all funds owed to RETRF. Since the fund is currently sound, a reimbursement is not being requested.

RURAL ECONOMIC DEVELOPMENT

No appropriation is requested. Earnings generated by the interest differential on voluntary cushion of credit payments made by REA borrowers will provide funds for this program. The estimated earnings in fiscal years 1990 and 1991 are $985,000 and $1,050,000. In addition, rural electric distribution systems now have the option to invest up to 15 percent of total plant value in rural development projects without REA approval This has the potential of generating approximately $7 billion in capital that can be available for investment in rural communities. REA supports rural economic development and encourages its borrowers to use their authority to implemental development projects.

SALARIES AND EXPENSES

An appropriation of $33,055,000 is requested for 531 staff years, including Office of the Administrator. A total of $506,000 is included for the third phase of a 4-year plan for office automation. Design of the loan accounting system is proceeding and funds for the implementation are included. Improvements created by the new system will shorten processing time for advances to our borrowers.

LEGISLATIVE PROPOSALS

Achievement of this new direction for REA lending programs will require legislative changes. REA's legislative proposal will: (1) authorize partially guaranteed private-sector loans; (2) establish a loan origination fee on all guarantee commitments; (3) change RTB interest rates; and (4) place future G&T borrowers in the private sector instead of the Federal Financing Bank.

SUMMARY

The 1991 Budget proposal reflects the Administration's commitment to maintain a Rural Electrification Administration program while recognizing existing budget constraints and other agricultural priorities.

The essential credit needs of REA borrowers will be served by this proposal. REA will continue to provide assistance and expertise to electric and telephone borrowers. Mr. Chairman, we ask your support of this fiscally sound budget request.

This concludes my statement. I will be happy to answer your questions or provide any additional information that you ~~need~~.

Biographical Sketch

GARY C. BYRNE

Gary C. Byrne was appointed Administrator of the Rural Electrification Administration on March 20, 1990. As Administrator, Mr. Byrne will oversee the loan programs of the Agency which currently finance approximately 2,000 rural electric and telephone utilities. He will also serve as Governor of the Rural Telephone Bank.

Mr. Byrne was Chairman of the Bank of Alex Brown in Sacramento, California, from 1985 to 1989 and President and Chief Executive Officer from 1987 to 1989. He also held identical positions with its investment subsidiary, the Alex Brown Financial Group. He chaired the Meridian National Bank, Meridian Bancorp, and Harden and Company Insurance Services, Inc., all financial institutions in California.

Mr. Byrne was an associate professor at San Diego State University from 1969 to 1973 and has written numerous works on socio-economic issues. He served on the boards of the University of Redlands and the California Bankers Association. In addition, he was a member of the board of the Western Mobilehome Association, Sutter Community Hospitals, the South Sacramento Rotary Club, and the Boy Scouts of America Golden Empire Council.

Mr. Byrne received his undergraduate degree from the University of Redlands in California and his doctorate from the University of North Carolina.

He and his wife, Norma, have two sons.

BUSINESS AND INDUSTRY LOANS

Senator **Burdick**. I will recognize the gentleman from Nebraska.

Senator **Kerrey**. I have no opening statement, Mr. Chairman, but I am concerned about the termination of a Farmers Home Administration program called the Business and Industry Loan Guarantee Program. Can you tell me what the experience has been under the B&I program, what the loss experience has been?

Mr. **Vautour**. I would like to answer that two ways. First, as far as the losses are concerned I would like Mr. Ausman to articulate that.

The reason for the new proposal is that obviously we have suffered some pretty heavy losses in the B&I program, but we have determined the annual cost of that program and increased the rural relending program by the same amount, which about doubles the relending program. Over the long term, we feel that it is better to loan to these intermediary groups at a very, very low rate, permitting them to relend it to ultimate recipients at perhaps 3, 4, 5, 6 percent and build a revolving loan fund that they can use in perpetuity, and over the years I think that impacts rural America much more favorably.

Now, with regard to the actual loss record, I would ask Mr. Ausman to respond.

Mr. **Ausman**. We are talking about a historic experience of about 12 percent writeoff on principal and interest.

Senator **Kerrey**. You had about 12 percent loss experience on the principal?

Mr. **Ausman**. On principal and interest.

Senator **Kerrey**. In the history of the B&I program?

Mr. **Ausman**. In the measurable time, right.

Senator **Kerrey**. How does that compare to other Farmers Home programs?

Mr. **Ausman**. Well, our guaranteed loan program and farmer programs as an example, reached a peak of losses and writeoffs of 4.6 percent and now we are down to less than 2 percent on our guaranteed loan program in farmer programs, and that is what the B&I program is, a guaranteed loan program.

Senator **Kerrey**. So you consider the losses under the B&I program to be excessively high?

Mr. **Ausman**. That is a judgment call and the decision to eliminate it and shift to the rural development loan fund is not based on losses, it is based on choosing between two programs that really do very similar things, one run out of Washington and the other run out of State or local associations. We believe that State and local groups can be more productive than we can out of Washington and in the long term we would be better off with one rural lending program rather than two or more.

Senator **Kerrey**. Well, I am tempted to pursue a second line of questioning if you are going to be guided by the principle of, where possible, having the lending authority at the local level. Are you going to organize this lending by States, is that what you are suggesting?

Mr. **Ausman**. This program is out there now. This is not a new program. We are just adding additional money.

Senator **Kerrey**. I understand, but you are terminating one that you are saying is run out of Washington—and you are looking wrinkled-browed at me like I am saying this incorrectly.

Mr. **Ausman**. No; Farmers Home Administration is basically a centralized organization. We have State offices and county offices and all of that. If you were to make an application today for a B&I loan, it would be reviewed at the State level. It would then be submitted here with final approval at the national level because of the nature of those loans.

Senator **Kerrey**. Another benefit, it seems to me, is that the risk analysis is still done by the private lender, yes?

Mr. AUSMAN. It is a combination. The private lender participates, submits an application. We ultimately approve it or disapprove it.

COMPARISON OF B&I WITH INTERMEDIARY RELENDING PROGRAM

Senator KERREY. As I understand it, the recommendation is to reduce the B&I program by $95 million and to increase the RDLF Program by $10 million. Is that a correct statement?

Mr. AUSMAN. Yes; it is. The B&I program is a 95—or last year I think it was a $95.8 million guarantee. That is the total guarantees that we will make, and these guarantees are 100 percent of the loan, so theoretically we could make 98.5 individual million-dollar loans. That is what that means.

We know there will be some loss experienced, and based on experience we are taking what we would have to reserve for losses on those guarantees and we are transferring that direct, in a 1-year period transferring that over to our rural development fund. However, you cannot compare the figures, because they are not similar since B&I is a guaranteed loan level and RDLF is a direct outlay of funds.

Senator KERREY. So you are transferring—$10 million, you regard that $10 million increase in the RDLF as being comparable to a $95 million loan guarantee?

Mr. AUSMAN. Based on the current loss ratio, that is right.

Senator KERREY. Would it be fair to say that that would not be the view of someone who is out there actually trying to borrow or do the financing? Would it be fair to say that they would not accept the Government definition as being comparable?

Mr. AUSMAN. I see what you are saying, that here we could have $95 million in loans, but if we put $10 million out there you can only make $10 million in loans. That money is out there at 1 percent, which means that you can get quite a bit of mileage out of it.

Senator KERREY. I would like to have you provide me with detailed information and the loss experience with this B&I program, because the information that I have received on the B&I program is that the loss experience is less than that, but it is anecdotal information, it is not precise information from Farmers Home, and so I would appreciate, Mr. Ausman, if you could do that for me.

Mr. AUSMAN. Certainly.

[The information follows:]

RURAL DEVELOPMENT INSURANCE FUND
GUARANTEED BUSINESS AND INDUSTRY LOAN PROGRAM
LOSS SETTLEMENT AND GUARANTEE FEES
Inception through FY 1989

(in thousands of dollars)

	As of FY 1979	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989	TOTAL
Loss Settlement on Guaranteed Loans:												
Direct to Lenders	24,137	14,763	22,436	14,228	32,679	28,294	25,711	18,212	17,788	31,025	23,224	252,474
Investments in Guaranteed Loans Purchased from Holders	—	—	—	19,895	12,233	8,232	21,757	58,435	44,146	18,791	108,295	291,773
Total Loss Settlement on Guaranteed Loans 1/	24,137	14,763	22,436	34,123	44,912	36,526	47,468	76,647	61,936	49,816	131,508	544,247
Guaranteed Loss Recoveries	186 2/	134	376	295	730	817	196	587	2,899	468	1,242	7,928
Guarantee Fees	19,358	6,854	4,972	3,418	1,991	561	1,256	730	495	781	754	41,168
NET LOSS OR GAIN(-)	4,593	7,755	17,086	30,410	42,191	35,148	46,018	75,330	58,560	48,567	129,513	495,151

1/ Loss settlement includes interest and principal, and is the amount in the appropriation for reimbursement for losses.
2/ Includes guaranteed loss recoveries for FY 1974 through FY 1979.

Source: Report Codes 523 and 818
Prepared by: Budget Staff - LPB

The above losses reflect the amount paid each fiscal year and have no relationship to the year the loans were approved.

Only 9 of the 311 loans approved FY 1984 through FY 1989 have resulted in a loss.

COMPARING B&I WITH OVERSEAS PRIVATE INVESTMENT CORPORATION

Senator **Kerrey**. It does seem odd to me that at a time when we are with great enthusiasm calling for the use of fairly aggressive Government tools in assisting Eastern Europe that we cannot sustain a comparable effort here at home. Are you familiar with the Overseas Private Investment Corporation?

Mr. **Ausman**. Only peripherally.

Senator **Kerrey**. Well, it is something the administration is embracing enthusiastically. They are pushing it very hard. There are a number of people from my state that are using it, particularly in Czechoslovakia and Hungary and Poland.

It does seem rather odd that we have this fairly aggressive tool that a business could use if it is willing to expand in Poland, Hungary, and Czechoslovakia, but that it is not available if they want to expand in the United States of America.

I would just call to your attention that there seems to be a different enthusiasm for using a relatively aggressive tool like OPIC, which can actually take an equity position in a business if they choose to, in addition to providing loan guarantees to businesses that want to move into Eastern Europe, but there is no comparable tool that is available for businesses that want to open or expand in the United States of America. It is an ironic comparison. I do not know if you have made it. I would appreciate any comments you might wish to make on the comparison I just made.

CURRENT UTILIZATION OF B&I PROGRAM

Mr. **Ausman**. No; I will not comment on that, only to say we have advanced and in recent years have utilized all of our B&I allocations by being fairly aggressive and telling our people at the State level to make this well-known and to process applications. Interestingly, this year, at its current rate, we will not use all of the B&I money that is available. For what reasons, I cannot comment.

Senator **Kerrey**. You are not going to use all of the B&I money that is available for fiscal year 1990?

Mr. **Ausman**. Based upon our current obligations compared to last year at the same time, we just talked to the State directors and we said take a look at everything that is out there that is coming in. Make sure that nothing is caught in the pipeline as we go through the rest of this fiscal year.

Senator **Kerrey**. I do, by the way, like the principle that I heard you establish that you like, where possible, to give States increasing amounts of authority to make decisions, but I am also very much intrigued by the comparative analysis between what OPIC appears to do in assisting in foreign development. As I understand it, OPIC is a self-sustaining entity today as a consequence of its own success.

DISASTER IN NEBRASKA

One final question, and it is a parochial one. Nebraska has an application in for disaster assistance resulting from a tornado—15 tornadoes, actually—that struck in a 12-hour period over an area of

400 miles, missed the major cities but did about 40 million dollars' worth of damage on farms. Do you know the status of the request?

Mr. **Vautour**. Senator, I have not seen that request, and normally those come through my office and go to Farmers Home Administration, but the Administrator has the unilateral authority to declare a disaster for physical damages. Requests for emergency loans with regard to crops have to go through a longer process.

Senator **Kerrey**. Perhaps the Administrator could address that in greater depth?

Mr. **Ausman**. That is right. The tornado was a request for physical loss, and I signed it and transmitted it to the State yesterday.

Senator **Kerrey**. To Nebraska?

Mr. **Ausman**. Yes.

Senator **Kerrey**. The same for Kansas, do you know?

Mr. **Ausman**. No; Kansas was not on the one that I signed yesterday. There were 16 counties in Nebraska, plus many contiguous counties that had suffered physical loss.

Senator **Kerrey**. Thank you.

Senator **Burdick**. Senator Grassley?

1991 CROP-YEAR CYCLE

Senator **Grassley**. Thank you, Mr. Chairman. Mr. Vautour, welcome. The Department's plan to replace the crop insurance program with a disaster program, of course as you know has generated a heck of a lot of controversy and discussion back home. You mentioned that forthcoming legislation contemplates the termination of this crop insurance program effective with the 1991 crop cycle. An exact date, when does that cycle begin?

Mr. **Vautour**. By the way, I have become aware of the increasing concern that you speak of, but the cycle is basically in phases, and with that, I would ask Mr. Gabriel, the Acting Manager, to specifically address that.

Mr. **Gabriel**. Thank you, Senator. You asked when it would begin?

Senator **Grassley**. Yes; for the 1991 crop-year.

Mr. **Gabriel**. For the 1991 crop-year we have various dates established within our policies as to cancellation date, which sets the effective date for the next year's coverage, so actually May 30 is the first date of cancellation for coverage. We have, as you know, proposed an endorsement be placed on policies.

Senator **Grassley**. OK, then it starts rather soon. I mean, those of us that are planning, just beginning to plan our crops for 1990 then do not realize how soon this is coming up.

Those of us in the northern parts of the country—well, let me ask you, Mr. Vautour, does the Department expect to have a new program passed by Congress and have regulations in before the program dates close? The answer to that is obviously no, right?

Mr. **Vautour**. I guess I would have to answer that by saying it depends upon how rapidly the Congress moves.

NOTICE ISSUED ON 1991 FUNDING OF CROP INSURANCE

Senator **Grassley**. So it brings me, then, to the point of a letter that you had from a number of my colleagues, and I had an opportunity to sign it, but it was under the leadership of the Agriculture Committee, and so you are talking about some powerful people on agricultural policy that sent a letter asking you to rescind the interim rule on crop insurance issued February 28.

Should the Budget Committee approve fiscal year 1991 funding for the Federal Crop Insurance Program, would the Department rescind this rule, or is there any other signal you need from us so that you can rescind that rule? But let us stick with something that we know has got to be decided pretty soon, here. If the Budget Committee approves fiscal year 1991 funding, would you rescind that rule?

Mr. VAUTOUR. There are two issues here, Senator. First, you mentioned 1990. We will have a program for crop-year 1990.

Senator GRASSLEY. I know that. I am talking about 1991.

Mr. VAUTOUR. Second, the rule that you refer to already exists. I mean, that is boilerplate language. It is not new. Any policy that we issue is subject, of course, to appropriations, and that is the only thing that we stated.

Senator GRASSLEY. But, you see, nobody doubted that in the other 5 years of the 1985 farm bill. They are doubting it now because No. 1, we have got to pass a new bill, and No. 2, you have recommended that we not have a Federal crop program.

Mr. VAUTOUR. Until the Congress directs us otherwise, we intend to operate the program as it currently exists, because that is a statutory requirement. We do not intend, if you want to use the term, to crank it down. We must proceed with the program as it currently is comprised, until such time as the Congress directs otherwise.

The only reason for that notice that we published in the Federal Register, and we felt that we would be less than responsible if we did not do so, was to alert the producer out there to the fact that if the Congress did not fund the program, and if in fact there was a loss and that the insurance company that was underwriting the loss was unable to meet their requirements, we would have insufficient funds to do so.

Senator GRASSLEY. Did you put out the same notice in every year, 1986 through 1990?

Mr. VAUTOUR. No; we did not.

Senator GRASSLEY. You see, that is the significant difference. Maybe it is boilerplate, maybe it is standard procedure, maybe it is common sense, and it is all that, I think. The point is, there are questions out there that were never raised before, and effectively going to mean that as people try to sell this insurance they are not going to be selling it. I think you have effectively brought the program to an end whether that was your intention or not.

Mr. VAUTOUR. Well, it was not our intent, to be sure. If you will permit me, Senator, the reason that it was done this year is that we have not requested funds for the 1991 crop-year, as you know. You are quite right, in years gone by we assumed that we would have been funded and the process just went on.

RESCISSION OF NOTICE

Senator **Grassley**. Then my question, suppose the Budget Committee acts, then would you rescind that—you do not call it a rule, you call it a boilerplate?

Mr. **Vautour**. It is merely a notification.

Senator **Grassley**. Would you rescind that?

Mr. **Vautour**. If the Budget Committee gives us the funds to operate?

Senator **Grassley**. Yes.

Mr. **Vautour**. Well, of course.

Senator **Grassley**. Well, the only thing is, when the Budget Committee makes a decision to spend money it is not actually spent until it is appropriated by this subcommittee and the full committee, but you are seeing a positive signal from the Congress that we want that program to continue. We have got to get your cooperation some way to get rid of that boilerplate announcement that you made.

Mr. **Vautour**. We run a double risk here, Senator.

Senator **Grassley**. So you are saying no, you will not, just because the Budget Committee——

Mr. **Vautour**. I am not saying we will or we will not. I think that is a decision we have yet to come to grips with.

Senator **Grassley**. Then I guess I am asking you to go home and think about it and come back and tell us Monday or Tuesday if that is enough, or if that is not enough, what is enough?

Mr. **Vautour**. Most assuredly, we will think about it and provide our response for the record.

[The information follows:]

The FCIC has always included the "subject to the availability of funds" language in its contracts with private sector companies. Questions were raised in the past about the lack of such language in its policies with producers. We consider that it is important for producers, as for anyone who has a contract with the government, to be aware that the contract is subject to the appropriations process. We therefore intend to continue to publish endorsements for each of the crop policies as they are made available for crop year 1991, and to include the endorsement language as a permanent language in future crop insurance policies.

Senator **Grassley**. But if you say that is not enough, and you say you are waiting until we pass some legislation and the President signs it, then effectively you have got May 30, and nobody is going to buy Federal crop insurance.

Mr. **Gabriel**. The May 30 date was for small grain seeded for fall crops.

Senator **Grassley**. I know it, and we have got the program brought to a halt. I suppose if you had put out this announcement every year from 1986 through 1990, who could find any fault, but it is put out new, now, and so you have taken an action, and a correct action probably, but you have taken an action that has had a different effect than what you intended to have. It had the effect of making a decision that probably is not a decision any different than other years, but it is having an impact upon farmers and the industry out there.

GUARANTEED LOAN PROGRAM IN IOWA

Mr. Ausman, there are investigations currently underway in Iowa regarding abuses of the Guaranteed Loan Program. It is not an investigation of Farmers Home, let me make that clear. It is not that, but there is some investigation going on about some of the programs. No accusations of wrongdoing on your agency's part, let me make that clear.

I have supported the transition from direct Government lending to guaranteed programs, but I am concerned about what has been reported. What is being done by Farmers Home Administration to protect against lenders securing an FmHA guarantee and then foreclosing on a borrower to recover their losses from the Government?

Mr. **Ausman**. Well, in developing the Guaranteed Loan Program, obviously every year you implement new policies and procedures with the intent of better carrying out the program. I think we have been successful in that, and I would only point to some figures that I think would support that, Senator.

At the peak, a couple of years ago we were experiencing losses, I think of about 4.6 percent on guaranteed loans. Remember these are guaranteed loans that were made in the middle of the 1980's, when there were tough times out there. Everybody was trying to do everything we could to help farmers stay on the farm.

It is still true today. Today, those losses, in our most recent figures, are less than 2 percent, and so I think we have shown improvement in our controls based on performance.

Maybe more important, though, is the fact that even at our peak it would indicate to me we did not have widespread abuse of the program, because we were placing guarantees on loans that were not of commercial quality. Everybody understood that.

So given that, these loans are reviewed, the lender's performance is reviewed, every settlement is reviewed, and so we review it up front, put the guarantee on, review the settlement—we have to rely on lenders, of course, from the standpoint of performance and checking security and those kinds of things. That is the name of the game. It is their loan—it is the lender's loan—but I think the record would show that we are doing pretty well. Obviously, something unfortunate will happen occasionally in some certain place.

VIGILANCE AGAINST ABUSE

Senator **Grassley**. One followup, but Mr. Chairman I am not going to take time for the last two questions. I will submit them in writing.

I think you have suggested trends that are healthy, and it means that the agency is doing things differently, and saving the taxpayers money.

I guess I am talking about probably a very narrow part of the loss that as we become aware of, not definitively, where there was probably intent on the part of the borrower to have the Federal Government bail them out—I am not a lawyer, but that indicates to me a kind of fraudulent approach.

I guess in that very limited area, my question is directed toward, is there any extra sort of effort being taken by people under you all the way down to the grassroots to be particularly careful of that effort?

Mr. **Ausman**. We are constantly working with our county supervisors, who are the people that work with the lenders, providing checklists that they use. Let me just say, when we find a case where there is evidence that the lender has not been performing according to the contract, we are not paying. We do not pay on every claim that comes in.

In fact, I think some of the cases that you are concerned about are instances where we have not paid. So that is the other control. Not only do you try to control it on the front end, which is the best, but then it gets to the bottom line of settling, it is not a given that we are going to just automatically settle.

Senator **Grassley**. I think I am satisfied with your answer for now, but let me just suggest to you—and I am not going to submit anything for you to answer in writing right now, but it might be that I am going to ask you down the road for some specific efforts—and I am not saying there are not any, but some specific efforts that are guaranteed, in seeing that this sort of conspiracy does not happen.

Mr. **Ausman**. Senator, I could not agree more with you. I think the success of the Guaranteed Loan Program is essential. It must be a credible program. That is your concern, that is our concern, and I appreciate your questions.

Senator **Grassley**. Thank you, Mr. Chairman, and I will submit to Mr. Byrne—and I think I have one more question for you, Mr. Ausman that I am going to ask for an answer in writing.

Thank you.

Senator **Burdick**. Senator Cochran.

RURAL DEVELOPMENT INITIATIVE

Senator **Cochran**. Thank you, Mr. Chairman. Let me join you in welcoming the distinguished panel of witnesses before our subcommittee this morning. We appreciate your being here and your cooperation with our subcommittee.

While I have some specific questions that deal with REA and Farmers Home Administration and the Federal crop insurance programs, I thought I would ask the Under Secretary, Mr. Vautour, about the administration's position on the rural development initiative. Last year, our Agriculture Committee, on which I also serve, reported a rural development bill, and the Senate passed it. This week the House also passed a bill. What impact, if any, do you see in the passage of a rural development bill on the budget request that is before our committee? Will this require the administration to ask for supplemental funding to deal with some of these new authorities that may be created by a rural development bill?

Mr. **Vautour**. Senator, I am not sure I know how to answer that question. This is not a hedge, but based on the House bill, as currently passed, there is the potential for a substantial increase in expenditures. Whether or not we would need to ask the Congress for additional appropriations is going to depend on what is decided in conference.

Much of what is contained in both bills we think can be done. Some of it can be done at no cost, some of it at very substantial cost. I guess I would have to answer by telling you that until we have a bill from the conference and can actually cost out some of those proposals, it would be very difficult to determine a price tag.

REORGANIZATION FOR RURAL DEVELOPMENT

Senator COCHRAN. As I understand it, one proposal is to create a Rural Development Administration and transfer some of the activities that are now handled by Farmers Home Administration to the new agency. I believe the rural water and sewer system programs and rural development loans and grants would come under the jurisdiction of this official. Is this something the administration supports, or do you feel that that should be handled in a different way?

Mr. VAUTOUR. I publicly stated in testimony on November 8 that we do support the concept. We do not look upon it as a cost item. There may be some minimal cost involved, but it is merely a reorganization. You are quite correct, we would be taking water and waste, B&I if we have a program, rural relending, and move these programs from the Farmers Home Administration to this new Rural Development Administration. The supporting costs that are now included in the cost to Farmers Home would be transferred as well. So, we really do not look at it as a new cost item.

Senator COCHRAN. In terms of administrative responsibility and management, do you see this as promoting efficiency or being easier to handle? Is that why you support that?

Mr. VAUTOUR. Yes; I would say, however, that at the present time we do not contemplate the moving of the housing programs because, as you know, Senator, those are delivered at the local level by county supervisors, and the county supervisor cannot work for two bosses. He is either working for Farmers Home, or he is going to be working for the Rural Development Administration. We do not contemplate that kind of move. It is the centralized loans that are rural development oriented. They would be the ones that would be moved to the proposed administration.

BACKLOG OF ELECTRIC LOAN APPLICATIONS

Senator COCHRAN. In connection with the REA, I was going to ask Mr. Byrne about the extent of the backlog of loan applications. It is my understanding that REA has a big backlog of applications from borrowers—potential borrowers. I am told that the total dollar value of the applications is in the neighborhood of $600 million. Is this true, and if so, why is this something we should be worried about?

Mr. BYRNE. Currently the estimated backlog is about $530 million. We are anticipating that at year end it will be about $550 million.

Senator COCHRAN. Why is it so high, or is that high?

Mr. BYRNE. The amount has fluctuated over the years. There have been years when the entire amount was not fully utilized, and, yes, this is a high amount.

Senator COCHRAN. They tell me that in my State of Mississippi we have about $10.6 million in loans on hand, and that they expect to submit another $8.4 million later in the year, for a total of $19 million in REA loan applications from my State.

I'm also told that it is taking from 12 to 18 months to process a loan application. If you add the 6 months that it generally takes to prepare an application, we are talking about a 2-year process from actually making a decision to apply for a loan and then getting the proceeds of that loan. That sounds like a long period of time to me. If that is accurate, why does it take so long to get a loan processed?

Mr. BYRNE. It is a function of the economic situation, that the funds are not available—it is not a paperwork problem—we are fully utilizing, by quarter, the funds that are available, and, so, it really is a function of the amount of dollars that are available.

Senator COCHRAN. Well, who is deciding not to make available the money in a timely fashion?

Mr. BYRNE. Well, we are fully utilizing all the funds apportioned on a quarterly basis. We are lending each quarter the amount of dollars that are available on a first-come-first-serve basis.

Senator COCHRAN. Is this something that is written into the law?

Mr. VAUTOUR. Senator, that is a function of OMB. In other words, the total—the total amount, floor and ceiling, are determined by this committee and then authorized to us and REA obligates on a quarterly basis, and the quarterly releases are handled by the Office of Management and Budget.

Senator COCHRAN. Could you, for the record, supply us with information indicating the kind of loans that are on file at REA—the nature of this backlog in terms of where in the country the applicants are from and how big they are, so that we can get an understanding of where we stand on our loan application process?

Mr. BYRNE. Yes; we would be glad to do that.

[The information follows:]

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                      - RURAL ELECTRIFICATION ADMINISTRATION
                    LOAN APPLICATIONS STATUS REPORT (ELECTRIC)
                          (AS OF TUE  4/ 3/90  7:20)

                                BUDGET SUMMARY

                          5%                 2%            INSURED        GUARANTEED
BUDGETED......                                           622,050,000     813,450,000
APPROVED:DIST     314,349,000          7,656,000         322,005,000               0
         P/S                0                  0                   0               0
         TOTAL    314,349,000          7,656,000        322,005,000                0
AVAILABLE.....                                           300,045,000     813,450,000
ON HAND: DIST                                            468,230,000               0
         P/S                                              71,544,228     200,703,000
         TOTAL                                           539,774,228     200,703,000
NET-IF APPROVED                                         -239,729,228     612,747,000
------------------------------COUNTS----------------------------------------(BOTH)
LOANS
APPROVED:DIST              91                  1                  92        0 (    0)
         P/S                0                  0                   0        0 (    0)
         TOTAL             91                  1                  92        0 (    0)
ON HAND: DIST                                                    116        0 (    0)
         P/S                                                       5        5 (    3)
         TOTAL                                                   121        5 (    3)

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LIEN ACCOMMODATIONS
APPROVED:     4          49,069,234
ON HAND:      2         135,000,000
TOTAL         6         184,069,234

                                                ON         # OF DAYS IN      DAYS
                                       APR     ORDERS    ---------------     SINCE    APC
--ST-BOR-DESC ----     AMOUNT      --  DATE  -- DATE   --AREA--ALOT-- ADM--  APR     DATE
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INSURED LOANS PROGRAM
AWAITING ALLOTMENT

  TN  35 W7          3,052,000.00   8/04/89   3/16/90   223    19     0   242   8/04/89

      ALOT OFFICE TOTAL             $3,052,000.00 FOR   1 LOAN APPLICATIONS
             PROGRAM SUB-TOTAL      $3,052,000.00 FOR   1 LOAN APPLICATIONS
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INSURED LOANS PROGRAM
NE AREA OFFICE

  IL  38 W4         16,806,000.00   6/12/89   6/12/89   295     0     0   295   6/12/89
  IL  41 AG4         4,426,000.00  10/25/89  10/25/89   160     0     0   160  10/25/89
  IN  21 M7            910,000.00   9/08/89   9/08/89   207     0     0   207   9/08/89
  IN  27 AD7           574,000.00   2/27/90   2/27/90    35     0     0    35   2/27/90
  IN  47 V7          2,030,000.00  12/07/89  12/07/89   117     0     0   117  12/07/89
  IN  60 AL7         3,500,000.00   1/10/90   1/10/90    83     0     0    83   1/10/90
  IN  89 AD6         1,400,000.00   9/08/89   9/08/89   207     0     0   207   9/08/89
  KY  20 AG7         2,892,000.00   2/28/90   2/28/90    34     0     0    34   2/28/90
  KY  33 AU7         3,672,000.00  11/09/89  11/09/89   145    .0     0   145  11/09/89
  KY  56 AE6         1,251,000.00  11/20/89  11/20/89   134     0     0   134  11/20/89
  KY  61 Y6          1,511,000.00   3/26/90   3/26/90     8     0     0     8   3/26/90
  ME  13 N4            481,000.00   1/16/90   1/16/90    77     0     0    77   1/16/90
  MI  29 Y4          1,172,000.00  12/28/89  12/28/89    96     0     0    96  12/28/89
  MI  43 AK6         2,790,000.00   3/23/90   3/23/90    11     0     0    11   3/23/90
  NC  10 BB6         3,892,000.00   9/05/89   9/05/89   210     0     0   210   9/05/89
  NC  34 AL6         3,150,000.00   2/22/90   2/22/90    40     0     0    40   2/22/90
  NC  35 AR6         6,860,000.00  12/04/89  12/04/89   120     0     0   120  12/04/89
  NC  39 AK6         8,400,000.00   3/23/90   3/23/90    11     0     0    11   3/23/90
  NC  59 AD6         2,800,000.00  11/29/89  11/29/89   125     0     0   125  11/29/89
  NC  66 V6            980,000.00  12/29/89  12/29/89    95     0     0    95  12/29/89
  NJ   6 AF6         2,520,000.00  12/18/89  12/18/89   106     0     0   106  12/18/89
  NY  21 Z6          1,680,000.00  11/20/89  11/20/89   134     0     0   134  11/20/89
  OH   1 AU6         1,989,000.00   1/02/90   1/02/90    91     0     0    91   1/02/90
  OH  75 Y6            980,000.00  10/20/89  10/20/89   165     0     0   165  10/20/89
  OH  87 Y6          1,887,000.00   9/13/89   9/13/89   202     0     0   202   9/13/89
  OH  88 AR6         4,002,000.00   7/25/89   7/25/89   252     0     0   252   7/25/89
  OH  93 AB6           856,000.00   8/31/89   8/31/89   215     0     0   215   8/31/89
  PA   4 AS6         2,335,000.00  12/06/89  12/06/89   118     0     0   118  12/06/89
  PA  20 AS6         2,170,000.00  10/02/89  10/02/89   183     0     0   183  10/02/89
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ST	BOR	DESG	AMOUNT	APR DATE	ON ORDERS DATE	# OF DAYS IN AREA	ALOT	ADM	DAYS SINCE APR	APC DATE
SC	28	AY6	7,087,000.00	1/25/90	1/25/90	68	0	0	68	1/25/90
SC	33	AR6	3,009,000.00	10/13/89	10/13/89	172	0	0	172	10/13/89
VA	2	AM6	840,000.00	8/24/89	8/24/89	222	0	0	222	8/24/89
VA	27	BB6	9,800,000.00	8/30/89	8/30/89	216	0	0	216	8/30/89
VA	30	AL6	1,960,000.00	10/30/89	10/30/89	155	0	0	155	10/30/89
VA	39	AG6	2,170,000.00	9/27/89	9/27/89	188	0	0	188	9/27/89
VA	55	D6	42,350,000.00	9/27/89	9/27/89	188	0	0	188	9/27/89
SC	50	R7	19,106,000.00	9/26/89	9/26/89	189	0	0	189	9/26/89

NE AREA OFFICE TOTAL $188,490,000.00 FOR 41 LOAN APPLICATIONS
PROGRAM SUB-TOTAL $191,542,000.00 FOR 42 LOAN APPLICATIONS

INSURED LOANS PROGRAM
SE AREA OFFICE

ST	BOR	DESG	AMOUNT	APR DATE	ON ORDERS DATE	# OF DAYS IN AREA	ALOT	ADM	DAYS SINCE APR	APC DATE
AL	9	AP6	3,990,000.00	8/30/89	8/30/89	216	0	0	216	8/30/89
AL	25	W6	3,012,000.00	8/24/89	8/24/89	222	0	0	222	8/24/89
AL	36	V7	3,906,000.00	12/27/89	12/27/89	97	0	0	97	12/27/89
AL	37	T6	6,160,000.00	11/20/89	11/20/89	134	0	0	134	11/20/89
AR	9	AS6	3,582,000.00	12/14/89	12/14/89	110	0	0	110	12/14/89
AR	11	AA6	1,245,000.00	12/29/89	12/29/89	95	0	0	95	12/29/89
FL	14	BB6	16,614,000.00	12/15/89	12/15/89	109	0	0	109	12/15/89
FL	22	AA6	1,400,000.00	8/24/89	8/24/89	222	0	0	222	8/24/89
FL	26	AR6	3,973,000.00	3/15/90	3/15/90	19	0	0	19	3/15/90
GA	8	Z6	3,122,000.00	9/05/89	9/05/89	210	0	0	210	9/05/89
GA	34	AL6	3,990,000.00	1/10/90	1/10/90	83	0	0	83	1/10/90
GA	45	AH7	1,750,000.00	3/06/90	3/06/90	28	0	0	28	3/06/90
GA	66	AH6	9,191,000.00	1/29/90	1/29/90	64	0	0	64	1/29/90
GA	70	AS6	2,885,000.00	2/07/90	2/07/90	55	0	0	55	2/07/90
GA	77	AR6	16,240,000.00	2/23/90	2/23/90	39	0	0	39	2/23/90
GA	92	AS6	5,121,000.00	2/26/90	2/26/90	36	0	0	36	2/26/90
GA	95	Z6	910,000.00	8/24/89	8/24/89	222	0	0	222	8/24/89
LA	11	AH6	2,017,000.00	6/28/88	6/28/88	644	0	0	644	6/28/88
LA	15	AG6	1,727,000.00	8/16/89	8/16/89	230	0	0	230	8/16/89
MO	37	AL6	2,549,000.00	3/06/90	3/06/90	28	0	0	28	3/06/90
MO	43	AG6	6,907,000.00	11/06/89	11/06/89	148	0	0	148	11/06/89
MO	48	AM6	4,710,000.00	8/18/89	8/18/89	228	0	0	228	8/18/89
MS	45	AD6	7,420,000.00	10/27/89	10/27/89	158	0	0	158	10/27/89
OK	29	AX6	3,854,000.00	2/12/90	2/12/90	50	0	0	50	2/12/90
PR	3	Y7	27,430,000.00	2/20/87	2/20/87	1138	0	0	1138	

SE AREA OFFICE TOTAL $196,090,228.00 FOR '9 LOAN APPLICATIONS
PROGRAM SUB-TOTAL $387,632,228.00 FOR /1 LOAN APPLICATIONS

INSURED LOANS PROGRAM
NW AREA OFFICE

ST	BOR	DESG	AMOUNT	APR DATE	ON ORDERS DATE	# OF DAYS IN AREA	ALOT	ADM	DAYS SINCE APR	APC DATE
AK	3	AC6	5,937,000.00	10/06/89	10/06/89	179	0	0	179	10/06/89
IA	5	Z6	700,000.00	3/09/90	3/09/90	25	0	0	25	3/09/90
IA	33	T6	840,000.00	1/29/90	1/29/90	64	0	0	64	1/29/90
IA	50	W6	600,000.00	12/29/89	12/29/89	95	0	0	95	12/29/89
IA	77	AD6	1,346,000.00	10/16/89	10/16/89	169	0	0	169	10/16/89
ID	10	AL6	2,139,000.00	12/22/89	12/22/89	102	0	0	102	12/22/89
MN	32	AA6	3,602,000.00	10/10/89	10/10/89	175	0	0	175	10/10/89
MN	37	AB6	1,440,000.00	2/02/90	2/02/90	60	0	0	60	2/02/90
MN	61	AD6	1,400,000.00	1/03/90	1/03/90	90	0	0	90	1/03/90
MN	65	AK6	18,984,000.00	11/15/89	11/15/89	139	0	0	139	11/15/89
MN	89	AE6	1,498,000.00	3/21/90	3/21/90	13	0	0	13	3/21/90
MN	97	AK6	1,674,000.00	10/06/89	10/06/89	179	0	0	179	10/06/89
MN	101	R6	615,000.00	9/14/89	9/14/89	201	0	0	201	9/14/89
MN	108	C6	2,170,000.00	3/05/90	3/05/90	29	0	0	29	3/05/90
MT	33	AC6	1,737,000.00	8/28/89	8/28/89	218	0	0	218	8/28/89
ND	11	AX6	4,852,000.00	10/16/89	10/16/89	169	0	0	169	10/16/89
ND	21	X6	1,759,000.00	10/23/89	10/23/89	162	0	0	162	10/23/89
ND	22	AE7	3,543,000.00	3/01/90	3/01/90	33	0	0	33	3/01/90
ND	30	Y7	2,351,000.00	2/06/90	2/06/90	56	0	0	56	2/06/90
SD	7	Z6	1,445,000.00	9/13/89	9/13/89	202	0	0	202	9/13/89
SD	13	X6	1,589,000.00	10/26/89	10/26/89	159	0	0	159	10/26/89
SD	16	X7	1,194,000.00	8/30/89	8/30/89	216	0	0	216	8/30/89
SD	23	U6	1,886,000.00	12/11/89	12/11/89	113	0	0	113	12/11/89
SD	37	R6	881,000.00	12/18/89	12/18/89	106	0	0	106	12/18/89
WA	8	AP6	1,931,000.00	1/03/90	1/03/90	90	0	0	90	1/03/90
WA	14	AA6	1,071,000.00	12/13/89	12/13/89	111	0	0	111	12/13/89

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                                                    ON       # OF DAYS IN      DAYS
                                          APR     ORDERS    ---------------   SINCE    APC
--ST-BOR-DESC ----       AMOUNT        -- DATE  -- DATE  --AREA--ALOT-- ADM-- APR     DATE
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  WA  28 X7               657,000.00  11/06/89  11/06/89   148     0      0   148  11/06/89
  WI  49 W6             2,715,000.00  12/27/89  12/27/89    97     0      0    97  12/27/89
  IA  83 AB12          18,667,000.00  10/01/89  10/01/89   184     0      0   184
  IA  84 AA12           3,333,000.00   2/09/90   2/09/90    53     0      0    53   2/09/90

   NW AREA OFFICE TOTAL              $92,556,000.00 FOR  30 LOAN APPLICATIONS
              PROGRAM SUB-TOTAL     $480,188,228.00 FOR 101 LOAN APPLICATIONS

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INSURED LOANS PROGRAM
SW AREA OFFICE

  CO   7 AC6            1,400,000.00   5/19/89   1/18/90   306    13      0   319   5/19/89
  CO  17 AP7            3,424,000.00   8/30/89   8/30/89   216     0      0   216   8/30/89
  CO  26 V6             2,741,000.00   3/02/90   3/02/90    32     0      0    32   3/02/90
  CO  33 Y6             1,817,000.00  10/10/89  10/10/89   175     0      0   175  10/10/89
  CO  35 AD6            1,136,000.00   9/13/89   9/13/89   202     0      0   202   9/13/89
  CO  36 AC6            3,735,000.00   2/12/90   2/12/90    50     0      0    50   2/12/90
  CO  38 AG6            2,122,000.00  12/26/89  12/26/89    98     0      0    98  12/26/89
  CO  40 T6               910,000.00  12/06/89  12/06/89   118     0      0   118  12/06/89
  KS  22 K7               247,000.00   3/15/90   3/15/90    19     0      0    19   3/15/90
  KS  39 Y6             1,341,000.00  12/15/89  12/15/89   109     0      0   109  12/15/89
  NE  77 AV7            5,263,000.00  10/26/89  10/26/89   159     0      0   159  10/26/89
  OR  39 X6             1,527,000.00   6/12/89   6/12/89   295     0      0   295   6/12/89
  TX  11 AC6            8,231,000.00   8/29/89   8/29/89   217     0      0   217   8/29/89
  TX  21 Z6               644,000.00  12/15/89  12/15/89   109     0      0   109  12/15/89
  TX  38 AF6            2,594,000.00   3/30/89   3/30/89   369     0      0   369   3/30/89
  TX  40 AP6            3,500,000.00   9/28/89   9/28/89   187     0      0   187   9/28/89
  TX  49 AK6            9,924,000.00   1/02/90   1/02/90    91     0      0    91   1/02/90
  TX  96 AT6            1,800,000.00   1/22/90   1/22/90    71     0      0    71   1/22/90
  TX 149 X6             5,094,000.00   9/14/89   9/14/89   201     0      0   201   9/14/89
  UT   6 AL6            2,136,000.00  10/30/89  10/30/89   155     0      0   155  10/30/89

   SW AREA OFFICE TOTAL              $59,586,000.00 FOR  20 LOAN APPLICATIONS
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              PROGRAM TOTAL         $539,774,228.00 FOR 121 LOAN APPLICATIONS
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GUARANTEED LOANS PROGRAM
SE AREA OFFICE

  AL  42 AA8           55,500,000.00   2/02/89   2/02/69   425     0      0   425
  AL  42 AB12          38,612,000.00  12/21/89  12/21/89   103     0      0   103
  FL  41 G8            37,207,000.00   9/05/89   9/05/89   210     0      0   210

   SE AREA OFFICE TOTAL             $131,319,000.00 FOR   3 LOAN APPLICATIONS
              PROGRAM SUB-TOTAL     $131,319,000.00 FOR   3 LOAN APPLICATIONS
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GUARANTEED LOANS PROGRAM
NW AREA OFFICE

  IA  83 AB12          37,800,000.00  10/01/89  10/01/89   184     0      0   184
  IA  84 AA12          31,584,000.00   2/09/90   2/09/90    53     0      0    53   2/09/90

   NW AREA OFFICE TOTAL              $69,384,000.00 FOR   2 LOAN APPLICATIONS
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              PROGRAM TOTAL         $200,703,000.00 FOR   5 LOAN APPLICATIONS
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                                                  ON      # OF DAYS IN      DAYS
                                        APR     ORDERS -----------------   SINCE    APC
--ST-BOR-DESG ----    AMOUNT        --  DATE -- DATE  --AREA--ALOT-- ADM-- APR    DATE
----------------------------------------------------------------------------------------

OTHER ACTIONS
NE AREA OFFICE

  VA  52 LA1        130,000,000.00    3/19/90   3/19/90    15     0     0    15    3/19/90

    NE AREA OFFICE TOTAL            $130,000,000.00 FOR   1 OTHER ACTIONS
              PROGRAM SUB-TOTAL     $130,000,000.00 FOR   1 OTHER ACTIONS
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OTHER ACTIONS
SE AREA OFFICE

  LA  10 LA1          5,000,000.00    3/26/90   3/26/90     8     0     0     8

    SE AREA OFFICE TOTAL              $5,000,000.00 FOR   1 OTHER ACTIONS
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              PROGRAM TOTAL         $135,000,000.00 FOR   2 OTHER ACTIONS
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APPEAL OF A CROP INSURANCE CLAIM

Senator COCHRAN. On Federal crop insurance issues, the other day I had brought to my attention a problem that one of my constituents has encountered in an appeal of a case.

Apparently, a decision denying a claim was made locally in Mississippi. The claim has a value of about $18,000, and the constituent has been given an appeal date of August 22. I am advised that he cannot collect a disaster payment from ASCS of $12,000 unless the appeal of this claim for $18,000 is approved or goes his way.

He is also trying to get a Farmers Home guaranteed loan for this year's planting season, and he needs this additional money to meet some cash-flow requirements of that loan. So here he is, trying to get out in the field and trying to make preparations for this crop-year, and he does not have the financing.

My question is, why is this appeal date in August? Why could he not get a more prompt handling of his claim so he could get that adjudicated and know one way or another before then whether he is entitled to this payment or not?

Mr. GABRIEL. Senator, I am not familiar with this specific claim, but if you will get the information to me, I assure you I will get it moved through.

Senator COCHRAN. I appreciate that. I am concerned, too, about the process. I guess I am also concerned about this individual's problem. I do not know whether he is entitled to the money or not, and I have no personal knowledge of the merits of the case.

He says the reason he has had to appeal this decision is because it is claimed that he did not pay a premium in 1987. He says he did not even know he had crop insurance in 1987 and that he never received a premium notice. Now he is told that his claim cannot be honored because he did not pay a past year's premium. It sounds kind of confusing to me.

Also, I am told that even if he wins this appeal and before his payment can be submitted to him, it has to be approved in Washington. Is that normal procedure?

Mr. **Gabriel**. Normally we have two levels of appeal. The first level is at the field level and if a favorable decision is not rendered at that time the policyholder has the right to ask that it be reviewed at the Washington level. If there is a favorable decision on his part then only a file copy is sent to Washington for review.

Senator **Cochran**. Well, that is what happens. Rumors end up being fact, you know, in the minds of some folks.

Mr. **Gabriel**. We will be happy to take a look at it.

EXAMPLES OF FEDERAL DISASTER RELIEF

Senator **Cochran**. I am glad I brought it up and got that clarified.

One concern I have about crop insurance is that the administration in its budget has proposed to discontinue the program as it is now to try to substitute some kind of disaster assistance benefit program in place of it.

We may end up changing the whole system this year. I think it is in need of repair. Some might call it reform. Every time there is a major disaster it seems that we are pressured to enact legislation dealing with the disaster and trying to provide benefits to the victims. We are all motivated to do that with the best of intentions. We used to have that kind of process when we had a hurricane or floods in the South.

I guess the biggest example of that in terms of national commitment to help a region was in 1927, when the Mississippi River overflowed its banks and inundated thousands and thousands of homes and businesses. People were drowned, and crops were destroyed throughout the lower Mississippi River Valley. That sort of set a precedent, I think, and thereafter whenever there would be a major disaster, Congress would respond by authorizing emergency measures to be taken to get relief to those who needed it. In agriculture, we began doing that as well.

However, what has happened in the disaster relief program is that every time there was a disaster, we wanted to outdo the performance of the previous disaster relief effort to show that we were more sensitive now than we ever had been before. The needs were brought to the attention of the Congress by home State Senators and Congressmen who were eager to show their influence in Washington. This was all well-motivated, but what we had to do then was to enact a standard benefit policy that would apply to every disaster situation. That is now in effect. It is not perfect, but when an area is hit with devastation because of floods or tornadoes or whatever, the Federal Emergency Management Agency comes in and provides information and a certain level of benefits to victims who qualify and who are determined to be eligible under the law. I can remember when we went through the agonizing process of writing that law, working on it, and getting it finally in place.

ROLE OF CROP INSURANCE IN DISASTER RELIEF

I think it is time for us to consider similar action that would deal with disasters that hit agricultural areas and that are devastating to farmers and landowners. I think we should make the Crop Insurance Program a part of such a disaster benefit package, and there should be some Federal involvement.

We have, for example, Federal flood insurance that is available to homeowners and businessowners that was considered an integral part of the Disaster Benefit Program that is administered and coordinated by FEMA. I am just throwing that out to see what your reaction is to that.

I know you probably don't have a specific proposal to recommend, and you are not the Secretary of Agriculture. I know the Secretary is going to call on all of you to get some advice and input into the administration's position on this issue. Maybe you have already done this.

But, what is the crop insurance proposal right now? Has the administration decided that we do not need any crop insurance benefit program? What are we going to do in place of it?

SIMPLIFICATION OF CROP INSURANCE PROGRAM

Mr. **VAUTOUR**. Senator, if I might, I could not agree with you more. You know, there is an old adage out in the country, if it ain't broke, don't fix it. The Crop Insurance Program as we know it today is broke. It is a terribly complicated program.

It is unaccepted by the farmer. He has spoken in the marketplace. The best participation we ever had prior to this year was 25 percent. This year it is up around 40 percent, because many who received disaster assistance in the 1988 drought were required to purchase crop insurance. There is a desperate need for a simplified, easily understood and dependable method of handling risk management.

By no means is the administration proposing that we do not give the farmer some method of managing his risk. Using your example of the FEMA Act, we think we have taken the first step by proposing a standing disaster bill. Just quickly, at the risk of getting all tangled up in numbers, let me run through what we are proposing. If any county experiences a loss greater than 35 percent, then all farmers in that county would become eligible for disaster benefits.

If they, in turn, had yield losses greater than 40 percent, that is, if their yield fell below 60 percent of the average county yield, they would be recompensed on that basis automatically. Their standing is never questioned, and it is dependable.

Now, whether that is the final thing that we are going to propose is difficult to say. We certainly stand ready to work with the Congress to come up with one that is very much along the lines of what you just mentioned, Senator. I applaud that, and I think that is a sensible, logical way to go. We want to position the program that we represent so that the private sector can write insurance either over or under the standing disaster—catastrophic disaster protection that we think the Government should be offering. But it is catastrophic.

BANK PARTICIPATION IN GUARANTEED LOANS

Senator **COCHRAN**. I appreciate hearing that, and I hope we can work our way through this process this year in the Agriculture Committee. We may be able to add this as a title on the farm bill or deal with it separately. I do not know how the chairman would like to proceed, but I am told we are going to begin markup of the 1990 farm bill next Wednesday. We are going to start with the trade title, but this is certainly something that I think we ought to address this year.

Mr. Chairman, I know you probably have some other questions, but I would like to ask a couple of questions on another subject—the Farmers Home Administration lending—and I had a meeting in my office this week with our State director of the Farmers Home Administration. Jim Huff is our State director, and I must say he is an outstanding person. We are very lucky to have him in this position at this time.

He told me some very interesting things that were encouraging about the Guaranteed Farm Operating Loan Program. He says that it appears to be working better now in Mississippi than it ever has in the past. More and more banks are participating. The larger banks are now getting interested in making farm loans. Those who had not made farm loans in a long, long time are now actively involved in writing this business. That was very good news to me, because for a long time people just said, that is not going to work, and they did not want to hear about it. That is changing now in my State.

Is that true nationwide? Do you have any information that you could share with us about the success of that program around the country? Are we different?

Mr. Ausman. Senator, you are having outstanding performance in Mississippi this year, which is one of the leading States as far as the growth of the guaranteed program. But the relative growth of the guaranteed program, on a balance for the country, is very positive.

As an example, last year, direct loans and guaranteed loans were almost identical in volume, $900 million in each program. We are operating this year off that same kind of a base, and as of today I think we are looking at direct lending being at about 74 percent of what it was last year on this date. So direct lending is behind last year. Guaranteed lending is about 98 percent of last year at this date. That means guarantees are gaining in the total picture, and that is what you were talking about.

We have a number of States—I think we have about 10 States right now—that have shown very good growth in the Guaranteed Loan Program this year. Mississippi is one, operating at about 140 percent of last year at this time, and we have a few others like that. The guaranteed program is moving ahead in the total picture and we believe some of the proposals that we are suggesting in the 1991 budget will enhance that development.

FARM OWNERSHIP LOAN PROGRAM

Senator Cochran. I was also interested in a reaction I heard the other day in a meeting I had with representatives of the farm credit system. A lending institution in the farm credit system expressed to me concern about the budget proposal to decrease the Farm Ownership Loan Program.

I do not know why that institution would be so concerned about that. What is your reaction? Is there a parochial interest that that institution might have, or is this something that is going to be a problem for the farm credit system around the country if this committee approves the budget for Farm Ownership Loan Program activity?

Mr. AUSMAN. Well, Senator, I do not think it is peculiar to the Farm Credit System. They are concerned because a good part of what they do is real estate lending. Of course, a good part of what they do is also operating credit through the production credit associations, and there we are continuing with a strong level of funds for guaranteed lending.

Let me say the background for the reduction in guaranteed loans for farm ownership and in direct lending for farm ownership reflects a basic policy decision that evolved this way. We work with limited resource borrowers, in essence. Let us not confuse that with our term we have in-house of limited resource rates, but the people we work with are not of commercial credit quality.

If you were to take a look at what has happened in agriculture in the last few years, the best returns come from operating farms, not from owning land. In fact, there have been some serious losses in owning land in recent years. If you have limited resources, that can really hit you. We believe we ought to devote our attention to helping with operating loans. Assuming there is *x* number of funds available, let us devote that resource to operating loans, get the person on their feet, going well, so they can move into ownership through the commercial credit market. That is a basic policy decision.

Following up on that, we have to consider another factor concerning the possibility of farm ownership. Not that we want to, but it looks like we are going to have to bring in a number of farms. Even with the Farm Credit Act of 1987, we are not going to be able to keep everybody in farming.

Those farms that we bring into inventory are available for credit sales, and while they do not show in our budget proposal, there are some substantial figures involved. You could consider them as farm ownership loans. We see through this transition that we may acquire 20,000 plus farms which will be available for farm ownership.

So, coupled with our direct loans for socially disadvantaged applicants, a guaranteed loan program reduced from last year but still of substantial size, and inventory property available, we think we have addressed farm ownership from the standpoint of providing the opportunity for people to own farms.

RURAL HOUSING

Senator COCHRAN. I appreciate very much your discussion of that issue with us. I remember having the opinion at one time that we did not need to emphasize the ownership loan side of the ledger, particularly at a time when farmers were having such a difficult time making a living on the farm. To encourage somebody to buy a farm would be doing them a disservice rather than a favor, but that might have been a callous attitude at the time. I really think that you have explained that in a way that certainly makes us understand it a lot better.

I have some other questions about the Farmers Home Self-Help Housing Grant Program and the farm labor housing loan and grant programs. I am going to submit those and ask you to respond to them in writing. Do you have figures today to tell us how many applications Farmers Home has on hand for farm labor housing loans or grants. How does this compare with the fiscal year 1990 appropriation? I think the reason I am asking that is to know whether or not additional funds are needed to handle that problem if there is a big backlog of applications.

Mr. Ausman. Senator, might I ask the head of our housing program?

[Pause.]

Mr. Ausman [continuing]. Senator, we do not have the exact number. We will supply that.

[The information follows:]

Nationwide, we have 13 applications on hand or funded totaling $20.1 million requiring loan and grant combinations for seasonal and year-round housing facilities. In addition, we have a historical demand for approximately $8 million for loans under $400,000 for applications to be generated by sponsors associated by the Farm Labor Technical Assistance Contractors. Therefore, we anticipate a total demand of $32.1 million for this fiscal year.

Currently, for fiscal year 1990, we have $23 million available and project a shortfall of $7.1 million. At the end of fiscal year 1989, we had $14.4 million of loan and grant preapplications on hand but not funded.

In fiscal year 1989, the authorized Labor Housing Loan funds of $11.3 million were fully obligated. The appropriated Labor Housing Grant funds were fully utilized, $9.3 million for construction grants and $835,000 for technical assistance grants. We had $1.5 million in carryover as a result of a prior year grant cancellation.

Mr. Ausman. It would look like we could be short of funding with applications on hand, assuming they are all valid. That is just a cursory review.

Senator Cochran. Thank you very much. Thank you, Mr. Chairman.

Senator Burdick. Senator Kasten.

Senator Kasten. Mr. Chairman, thank you, and first, Mr. Chairman, I would like to welcome Mr. Ausman, the new Administrator of the Farmers Home Administration. Mr. Ausman is from Wisconsin. He is a farmer, a veteran of the State legislature, and a former secretary of the Wisconsin Department of Agriculture, but equally important, also a good friend.

I am sorry that I was not here at the beginning of the testimony. I was over trying to negotiate for Dairyland Power some additional credits on the clean air legislation, and I am sorry that I was not here, but I want to congratulate you on your new position and I look forward to working with you as the Agriculture Subcommittee works on crafting the fiscal year 1991 appropriations bill. I look forward to discussing the Department of Agriculture's budget for small community and rural development programs.

The Farmers Home Administration, the Rural Electrification Administration and the Federal Crop Insurance Corporation provide our Nation's rural areas with essential financial and technical assistance. The President recognizes the importance of these programs and his budget request, I believe, is solid and would allow us to continue to successfully assist America's farmers and rural citizens.

So I look forward to today's testimony and to asking some of the questions regarding the Farmers Home Administration's wetlands protection policy. I hope we can work together in this crucial area.

WETLANDS POLICY

In 1987, La Verne, the Farmers Home Administration entered into a cooperative agreement with the U.S. Fish and Wildlife Service to protect wetlands on Farmers Home inventoried property. This program, relying on Presidential Executive Order 11990, had great potential, I believe, to protect and also to restore wetlands on farms where the taxpayer had already invested substantial money in farm credit assistance, sometimes exceeding the value of the entire farm. In most cases, a positive economic benefit accrued to the prospective buyer in the form of a reduced asking price and in the removal of marginal land from production.

Recently, you and Secretary Lujan have negotiated a revised agreement with regard to this overall area. First of all, can you tell me what, if any, changes you plan to make in this program and if there are changes why these changes are necessary, and then specifically what effect these changes might have on wetlands conservation?

Mr. **Ausman**. Well, Senator, the wetlands issue is an issue of a balancing act, as far as we are concerned between affording borrowers their rights as they have been provided in the Ag Credit Act of 1987 and Executive orders and the administration's interest in preserving wetlands. On occasion those two things conflict, and I think that is why we have had the long time involved in trying to work an accommodation which will do both.

I happen to believe that can be accomplished, and that is what we are attempting to do. I think we are all concerned about the time involved, but perhaps it only reflects the complexity of reaching that kind of agreement.

You did mention that Secretary Lujan is involved, and that just shows the importance and the concern that is being placed here. Secretary Yeutter is also involved. In fact, that is the level at which that negotiation is going on right now and we hope it will be resolved shortly.

Under Secretary Vautour has been involved with that, too. If he would like to add anything I would like to defer to him at this time.

Senator **Kasten**. If you could wait just a second, the premise of my question was that recently you and Secretary Lujan have negotiated a revised agreement. Is that premise incorrect? Would it be better to say a revised agreement is now being negotiated, or have you negotiated a revised agreement?

Mr. **Ausman**. No.

Mr. **Vautour**. The best way to describe that, sir, is that it is ongoing. The issue is, of course, the Executive orders versus the Ag Credit Act of 1987, which gave the borrower, the farmer, the right to purchase his property back from us before we took it into inventory or before we sold it to anyone else. We took the position that we probably ought not to be giving back, except for the public good, any less than we took from him.

We are very, very close to an agreement with Fish and Wildlife on that issue. If it is in inventory, if we, being Farmers Home Administration, own the land and there are no borrower rights attached, then the existing executive orders apply and nobody questions that, neither Fish and Wildlife nor Farmers Home. We all agree on that basis. The only area of contention is the area where the farmer had buy-back rights.

Senator **Kasten**. Can you tell us whether or not you plan to carry through and implement a wetlands program in this revised negotiation, or revised agreement, as inventory lands are disposed of, as required by the Executive order on wetland protection? In other words, you are not talking about violating that Executive order, or revising or reworking that Executive order on wetlands protection, are you?

Mr. **Vautour**. Not as long as I intend to work for the President. He is very clear on that. The Executive order is just that, an Executive order that states that we shall do this, and that is not a discretion that any of us have.

Senator **Kasten**. Does that, therefore, in effect implement the President's no net loss in wetlands proposal?

Mr. **Vautour**. That being the Executive orders? Yes.

Senator **Kasten**. All of us are aware of the tension and the controversy here, and it involves you and it involves a number of other kind of pressure points with regard to EPA, the Department of the Interior, and the Department of Agriculture.

I just think it is very, very important that we work toward the goal, La Verne, that you said. I think we can work this out and I think that they are compatible. There are compatible interests, directly compatible interests between conservation on the one hand and agriculture on the other, and they have got to fit together and I just think it is very, very important that we work this within the guidelines of the Executive order on wetlands protection and we are not pushing ourselves out around the edges.

Mr. Chairman, thank you very much, and I look forward to working with you.

RESERVE FOR DIRECT OPERATING LOANS

Senator **Burdick**. In the past, FmHA has held a reserve of direct operating money in Washington which has resulted in a shortfall of funding out in the field until after the lending season when it was too late for farmers to take advantage of the funds.

In our conference report last year we directed you not to do that. Have you maintained a reserve of these funds this year, and if so, how much?

Mr. **Ausman**. Senator, the reserve in the national office on farmer program direct operating funds is about $110 million, and, based on our current use as I alluded to earlier for Senator Cochran, there are ample funds available in all States. We are very cognizant of your concern in that regard.

Senator **Burdick**. Then you are in a better position than you were last year on this one, is that right?

Mr. **Ausman**. Yes, Mr. Chairman.

Senator **Burdick**. You do not think you will have any shortfall?

Mr. **Ausman**. Based upon our current operation we have really retained a very limited amount in the reserve. Mr. Chairman, the reason for keeping a reserve at the national level is that some States do not use all their funds and other States have greater need. This is how we can move funds around very easily as those requests come in. But we are operating at about 73 percent of last year at this time, which indicates the demand for funds is really down on the direct side.

Senator **Burdick**. How much of—and this is a very similar question. How much of the $900 million in direct operating funds have been allocated to the States at this time and how much has been obligated?

Mr. **Ausman**. Well, we allocated to States approximately $800 million. We have obligated $404 million as of yesterday.

Senator **Burdick**. Have you given the full year's allocation to States already?

Mr. **Ausman**. No; we have retained $110 million in the national reserve, and here is what we do. We distribute funds on a quarterly basis. If a State runs out of funds during a quarter, the State can request an advance of funds from its future quarter allocation.

Senator **Burdick**. Have you made a third quarter allocation?

Mr. **Ausman**. Yes.

Senator **Burdick**. Have you made any fourth quarter?

Mr. **Ausman**. No one has requested fourth quarter yet.

Senator **Burdick**. We also directed you at that time to pool operating and ownership funds which are unused by the States to distribute them to needy States early enough in the year to be sure that all funds were used, and you indicated that at least part of them had been used. Is that correct?

Mr. **Ausman**. Yes; our intent is to pool funds and we are communicating with the States on a regular basis, Mr. Chairman.

Senator **Burdick**. A regular basis and also on a regional basis?

Mr. **Ausman**. No; we do not operate our relationship on a regional. It is on a State-by-State basis.

AVAILABILITY OF CROP INSURANCE PROTECTION FOR 1991

Senator **Burdick**. What advice would you give a farmer participant in a crop insurance program as he seeks to insure his crop against disaster? Should he rely on disaster assistance payments as his sole source of protection for the 1991 crop year? Should he rely on disaster assistance payments as his sole source of protection for 1991?

Mr. **Gabriel**. Senator, as we have indicated earlier, until the legislation is changed, there is a program out there and we are operating under that basis for 1991. If there are funds, the producer will receive reimbursement if he has a claim.

Senator **Burdick**. Well, maybe you should answer this question, then. A crop insurance company has sent out material as follows:

> Dear policyholder, this is to inform you of our decision to cancel your multiple peril crop insurance policy with the insurance company effective for the 1991 crop year.

This decision is a result of our receiving information or notification from the Federal Crop Insurance Corporation that funding is not available for the 1991 crop year. Your 1991 multiple peril crop insurance program policy may be reinstated if funding is available by Congress.

In other words, you have already put a stop on these funds, is that right?

Mr. GABRIEL. I have not seen that letter. It would appear that that company has sent a bad notice out. May I discuss this just a little bit with you, Senator?

First of all, we have not told anyone to cancel their crop insurance policies. Our contracts are with the reinsured companies and with the master marketers who deliver the program to the producer. Both of those contracts indicate that if funds are not available, then the contract will not be honored.

As to the policyholder, unfortunately we do not have that wording in the current policy. So on February 27 we did publish a notice in the Federal Register of our intent to issue an endorsement which merely states to the policyholder, if funds are not available there be no indemnity payments from the Government. However, we are not intending to cancel any policies. It is the company's prerogative to cancel coverage.

Senator BURDICK. Have you finished?

Mr. GABRIEL. Yes, sir.

NOTICE ON FUND AVAILABILITY ON POLICIES IN PAST YEARS

Senator BURDICK. I do not recall—maybe you informed me, but I do not recall that any such information has ever been given out in prior years.

Mr. GABRIEL. It probably was not. However, many of the contracts that are out do have this kind of wording, and I think frankly we failed to include it in our policies, as it should have been.

However, when we recognized that it was not there, we felt there was a moral obligation on our part since we were not proposing funding of crop-year 1991 in the President's budget, to let everybody know up front of the possibility that Uncle Sam would not be able to pay claims.

Senator BURDICK. But this is no different than prior years. We are having our hearings today very much the same as we had in years past. We have not said no to this program. It seems to me you are jumping the gun with what you can do and what you cannot do.

Mr. VAUTOUR. The basic difference, Senator, is that in prior years we always requested money. But you are quite correct, the situation with regard to the actual funding is probably no different this year than it was in past years.

This year we have requested no funds for the operation of a 1991 program, and based on the fact that we did not request funding, we decided to notify folks out there of that fact. Again, in the past we had always requested the money.

REASON FOR 1991 BUDGET REQUEST

Senator BURDICK. Well, what is the reason for not requesting it this year?

Mr. **Vautour**. The reason we are not requesting it, Senator, is that the program is not working. The program needs fixing, it desperately needs fixing, and we are suggesting a substitute program.

Senator **Burdick**. Well then, your objection is based on something besides funds, then, is that right?

Mr. **Vautour**. You mean the fact that we are changing the program?

Senator **Burdick**. Yes.

Mr. **Vautour**. That is based on funds, to be sure, because it has been horrendously expensive. It is also based on the fact that it has not done the job for the farmer. It has not done the job for the Congress in giving them sufficient comfort so as to be able to resist the request for ad hoc disaster legislation as a disaster occurs. And, based on the fact that the farmer has rejected it in the marketplace, we just felt that we had to come up with a better, more understandable and a more dependable program.

USE OF CCC FUNDS

Senator **Burdick**. Can you use CCC funds to pay claims?

Mr. **Vautour**. I would have to ask Mr. Gabriel.

Mr. **Gabriel**. Yes; we use CCC funds when losses exceed the premiums.

Senator **Burdick**. How frequently does this happen?

Mr. **Gabriel**. CCC funds have been used each year since 1986, and certainly it was extensive with the 1988 drought. It has been our vehicle when the claims exceeded the premium, for reimbursing the policyholder.

Senator **Burdick**. If there were no money appropriated by the Congress, could they use that CCC money to pay claims?

Mr. **Gabriel**. For 1991?

Senator **Burdick**. Yes.

Mr. **Gabriel**. We would not have any——

Senator **Burdick**. What is your answer?

Mr. **Gabriel**. No.

Senator **Burdick**. No; they could not use the funds?

Mr. **Gabriel**. Mr. Chairman, I believe we would be able to use the money to pay claims, but we would not be able to pay operating expenses.

Senator **Burdick**. Would you be putting out a notice to that effect? Would you be putting out information or a notice to that effect?

Mr. **Gabriel**. I would like to provide that response for the record after I discuss this matter with my people.

[The information follows:]

Under Section 516(c)(1) of the Federal Crop Insurance Act, the Secretary has discretionary authority to use the funds of the Commodity Credit Corporation to make timely payment of indemnities to producers if at any time funds available to FCIC are insufficient for such purpose. However, except as provided by appropriations acts, FCIC is authorized to use such funds to cover indemnity payments, and the administrative expenses incurred in making payments, only to the extent that the use of funds will not cause CCC borrowing to exceed $20 billion.

It is not our intent to make any formal announcement of the statutory provision for use of CCC funds. Any formal announcement of the CCC funding provisions at this time could very well be misleading since the level of CCC's borrowing authority at the time funds may be required is unknown. There is no assurance that CCC funding will be available, nor that the Secretary would exercise his discretionary authority in the face of a Congressional decision not to provide funding for the program.

Senator BURDICK. Just a minute, what is your answer?

Mr. GABRIEL. Mr. Chairman, this is something we would be very happy to study, but I am not prepared to give you a response.

Senator BURDICK. You would be very happy to what?

Mr. GABRIEL. To study and get back to you and give you a response on it.

Senator BURDICK. Can you get back to us soon?

Mr. GABRIEL. Yes, sir.

Senator BURDICK. Five days?

Mr. GABRIEL. Yes, sir.

CROP INSURANCE ON EDIBLE DRY BEANS

Senator BURDICK. This question is for Mr. Vautour. Mr. Secretary, you are familiar with the problems that bean producers in North Dakota have been having with the Crop Insurance Program. Have you worked that program out yet, if you are familiar with it, and will there be any equity between the price selection for dry edible beans in North Dakota, Michigan, Minnesota, and other States?

Mr. VAUTOUR. Senator, I am familiar with the problem. We have been wrestling with that for some time. Mr. Gabriel has done most of the work in that area, and I would like to ask him to address the issue. You are referring now to Minnesota, Dakota area dry beans.

Mr. GABRIEL. Mr. Chairman, we have had a number of concerns expressed to us on dry beans. A level of guarantee has been one. We have reviewed and we have adjusted some yield levels in the North Dakota area where appropriate.

There is very weak data which exists as far as prices by type of dry bean, by area. We do have information from Nebraska on the Great Northern beans, from Northarvest bean growers in the Minnesota, Dakota area. We use the USDA Bean Market News.

The price levels for 1990 were based upon the available data that we had in April, May, and June 1989, and we struck prices in July and they were announced October 1 for the 1990 crop-year. We are continuing to work with the producers, the representatives and the congressional representatives to review the program and to develop acceptable methods to determine prices for 1991.

UNOBLIGATED REA LOAN BALANCES

Senator BURDICK. This is on unused REA balances. The conference report on the 1990 appropriations act stated that full use should be made of unobligated loan authorization for prior years to reduce the backlog of applications. This is on the REA program. What is the backlog of applications?

Mr. VAUTOUR. Senator, I would ask Mr. Byrne to respond.

Mr. BYRNE. Currently, on the electric side, we have about $530 million in backlog and are estimating at year-end we will have about $550 million. On the telephone side, we are estimating year-end backlog of about $15 million.

Senator BURDICK. In what years did they accrue?

Mr. **Byrne**. This is just this current year.

Senator **Burdick**. What are the unobligated balances, and from what years did they accrue?

Mr. **Byrne**. In 1985 we had a carryover of approximately $287 million, and that was simply because that year we did not have a sufficient number of applications. That is down now. We obligated above the minimum in 1986 and 1987. The current unallocated fund balance is about $251 million.

Senator **Burdick**. That is electric and telephone?

Mr. **Byrne**. No; that is electric only. Telephone is approximately $183 million.

Senator **Burdick**. Are you using these balances to fund the backlog as stipulated?

Mr. **Byrne**. Our budget decisions have been driven by the Gramm-Rudman-Hollings Act, and with the exception of 1985, we have fully utilized the floor since 1975, and so with the exception of just 1 year, we have always utilized the floor and we have not gone back. We have obligated at least the minimum each year except for 1985.

Senator **Burdick**. Why do you not go above the floor?

Mr. **Vautour**. The Congress, as you know, Senator, gives us a ceiling and a floor, and the allocations that are given to us from the Office of Management and Budget are usually at the floor for obligation purposes.

Senator **Burdick**. There does not seem to be any legal reason why you could not go to the top.

Mr. **Vautour**. Unless authorized, we cannot, sir. The law authorizes a range from bottom to top. If the Congress wishes us to expend a particular amount and specifically states that amount, obviously then, yes, we do have to.

TECHNICAL ASSISTANCE FOR RURAL ECONOMIC DEVELOPMENT

Senator **Burdick**. Mr. Byrne, this year's appropriation act stipulates that you are to use "$500,000 to provide community and economic development, technical assistance by REA employees to rural electric and telephone systems within 90 days of enactment." Are you familiar with this provision?

Mr. **Byrne**. Yes, I am.

Senator **Burdick**. I received a letter from Secretary Yeutter outlining how he intends to implement that provision, but I have several additional questions. He states the intention to hire a rural development coordinator at REA. Has this been done?

Mr. **Byrne**. We have advertised for that position. Advertising will close off today, as a matter of fact, and we anticipate hiring that individual in the near future, so it is in the process.

Senator **Burdick**. The Secretary's letter also states that a major component of the plan to implement this provision is to do so through USDA's Rural Information Center. I understand REA intends to hire two rural development specialists and to assign them to the Rural Information Center, is that correct?

Mr. **Byrne**. That is correct.

Senator **Burdick**. I do not wish to criticize the Rural Information Center. However, you should know that the Appropriations Committee did not provide this $500,000 to be used by that center. Rather, the funds are to be used by REA employees to provide economic development and technical assistance to rural electric and telephone systems. If the funds will be used to provide information to the general public, is not that a clear violation of the law?

Mr. **Byrne**. We anticipate that most of the demand for credit, or the request for credit at the National Rural Information Center will be from individuals who can utilize that information, so we do not anticipate that to be the case.

Senator **Burdick**. Mr. Byrne, I would ask you to look very carefully at this provision and your implementation of it, given that it should have been in place by February 19, 1990, you are already way behind. This is a very important tool for rural development and this administration claims to be very interested in rural development.

In your monthly report to this committee I would like you to include information on this provision. I would like information on what funds REA is expending each month to provide technical assistance on economic development to rural electric and telephone systems, to whom the funds are going and for what purpose. Will you provide that information?

Mr. **Byrne**. We will do that.

BORROWER PREPAYMENTS

Senator **Burdick**. To date, what prepayments have been allowed under the provision that allowed the prepayment of 500 million dollars' worth of loans in the appropriation act?

Mr. **Byrne**. That is in two phases: $350 million of that is for electric and $150 million is for telephone. On the telephone side, the regulations have been finalized and the open period to repay has now been closed. We have had $244 million of eligible requests to repay. We have $150 million and so we anticipate prorating those payments and we anticipate that the prepayments will begin within the next 2 or 3 weeks.

On the electric side, the regulations have been published as proposed rules and the comments from the proposed rules are now being considered. We anticipate publishing final within 1 month.

STATE MEDIATION PROGRAM

Senator **Burdick**. What is the status of the State mediation program? How many States are involved, and how much of the $3.5 million have you used this year for the mediation programs?

Mr. **Ausman**. Mr. Chairman, all of the funds are used. Sixteen States are participating.

Senator **Burdick**. How is it working?

Mr. **Ausman**. Mr. Chairman, we believe the mediation program is working very well. It is a cooperate program. It is directed at the State level, and it is helping borrowers and it is helping Farmers Home in resolving difficulties, and we think it is well on its way. Of course, we would like to think that we will get to a time shortly when its need will not be as great.

Senator **Burdick**. Would you supply me with a list of the States you referred to that are certified for mediation programs?

Mr. AUSMAN. Yes, Mr. Chairman, we will supply you with the list.

[The information follows:]

The following States have been certified for the Mediation Loan Program: Alabama, Indiana, Iowa, Kansas, Minnesota, Mississippi, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Texas, Utah, Wisconsin, and Wyoming.

RURAL RENTAL HOUSING

Senator BURDICK. The budget proposes to cut rural rental housing direct loans by one-third, yet FmHA has on hand over $2 billion in eligible applications for loans. Eligibility is determined by need, so there is a need out there. In addition, a recent study indicates that there is a shortage of 500,000 units of low-income rental housing in rural areas. Are you familiar with these figures, and are they accurate?

Mr. AUSMAN. I cannot speak to the accuracy of those figures. Let me just ask my housing chief.

[Pause.]

Mr. AUSMAN [continuing]. Mr. Chairman, regarding the figures on applications, we can attest to their accuracy. As to the need out there, we cannot. They are not our figures.

Senator BURDICK. Would you supply them?

Mr. AUSMAN. Yes, we can.

[The information follows:]

The Rural Rental Housing Division conducted a survey of its State Offices in January, 1990. A full application is one that has been determined to be eligible, feasible and likely to be funded this fiscal year. The number of full applications being processed was 605, totaling $540.25 million. The number of eligible preapplications on hand was 11,863 totaling $1.6 billion. The combined total of these figures is approximately $2.1 billion.

It is our understanding that the estimation of a 500,000 unit shortage came from the American Housing Survey, compiled by the Bureau of the Census, U.S. Department of Commerce every two years under a contract with the Department of Housing and Urban Development. The figures quoted by the Chairman were from the 1985 Survey. The 1987 figures, we have been told, show a shortage of 650,000 rental units. The survey is based on the number of households making $10,000 or less compared with the number of rental units available at $250 or less per month ($250 being 30 percent of monthly income for these households).

SUBMITTED QUESTIONS

Senator BURDICK. Thank you for your testimony. Additional questions will be submitted for written response by the following Senators: Grassley, Cochran, Kasten, Bumpers, and Burdick.

We would ask you to respond to them within 5 days.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

FARMERS HOME ADMINISTRATION

QUESTIONS SUBMITTED BY SENATOR BURDICK

STATE MEDIATION PROGRAMS

Question: Have you been unable to fund some applications? If so, how many, and in what amounts?

Answer: All applications that have a USDA Certified State Agricultural Loan Mediation Program have been funded.

Question: List the States that have been certified to receive mediation grants and the dates of their approval. Also list any States with applications pending or States that you anticipate will apply for certification.

Answer: [The information follows:]

Farmers Home Administration
USDA Certified Agricultural Loan Mediation Grant Program
States Certified
FY 1990

State	Date of Recertification
Alabama	8/10/89
Arkansas	Pending
Indiana	8/10/89
Iowa	8/10/89
Kansas	8/10/89
Minnesota	8/10/89
Mississippi	8/10/89
Montana	8/10/89
Nebraska	8/10/89
New Mexico	8/10/89
North Dakota	8/10/89
Oklahoma	8/10/89
South Dakota	7/27/89
Texas	8/10/89
Utah	8/10/89
Wisconsin	8/10/89
Wyoming	8/10/89

Question: Please list the States that have received mediation grants in 1989 and 1990. Also list the States with pending applications and the amounts as well as your anticipations of further applications.

Answer: The State of Arkansas has an application pending for USDA certification with a grant request of $82,500. The States of Maine, New York, Vermont and Washington have indicated some interest in developing a USDA Certified State Agricultural Loan Mediation Program. However, no applications have been received from these States. The State and grant amounts are listed as follows:

Farmers Home Administration
Agricultural Loan Mediation Grant Program
Obligations by State
FY 1989 and FY 1990

State	Matching Grant Fiscal Year 1989	Matching Grant Fiscal Year 1990
Alabama	$110,200	$170,840
Indiana	29,090	37,340
Iowa	305,000	255,890
Kansas	431,150	451,990
Minnesota	500,000	500,000
Mississippi	75,040	81,160
Montana	75,000	15,000
Nebraska	168,140	177,650
New Mexico	55,050	59,500
North Dakota	260,020	375,000
Oklahoma	269,870	262,760
South Dakota	97,000	92,360
Texas	500,000	427,970
Utah	12,000	10,000
Wisconsin	87,440	93,880
Wyoming	25,000	25,000
TOTALS	$3,000,000	$3,036,340

WATER AND SEWER LOANS

Question: The budget proposes to cut water and sewer loans by $75 million and grants by over $100 million. I understand that the backlog at FmHA for this money is $1.3 billion. Is that accurate?

Answer: As of March 28, 1990, FmHA had on hand 1,364 water and waste disposal loan preapplications and unfunded applications totalling $1.052 billion and 652 grant preapplications and unfunded applications totalling $388.7 million.

Question: I also understand that EPA estimates the need for rural sewer systems at $28 billion. I cannot understand why you propose such big cuts in this crucial rural development program when there is such a big need out there. Please comment.

Answer: FmHA recognizes the needs of rural communities to bring their wastewater treatment facilities into compliance with the Clean Water Act of 1977. To meet this need, the Department established its Rural Development Initiative in 1987 to reevaluate and redirect financial assistance to low income and very low income communities who will have the hardest time meeting the requirements of the Clean Water Act of 1977. The 1991 budget reflects the administration's continuing concern by proposing funding for direct water and waste disposal loans and grants and guaranteed water and waste disposal loans.

GUARANTEED LOANS - RURAL HOUSING

Question: It is my understanding that FmHA's experience with guaranteed loans has not been too good. According to a recent GAO report, FmHA has never fully used the authority provided by Congress for guaranteed farm loans. In addition, few farmers who previously received direct loans have been able to participate in the guarantee program. Losses for 1989 alone will be over $100 million. In light of this, why is the Administration recommending a similar approach, or a guaranteed loan program, for low-income home owners?

Answer: Although the Agency experienced $100 milllion in losses in 1989, this figure represents only 2% of the total outstanding principal balance. The Agency has gained considerable experience in loan guarantees and the number of loans made has increased in recent years. Also, our proposed guaranteed housing loan program includes a loan subsidy feature to assist low-income borrowers in having adequate repayment ability.

Question: Can you guarantee that you will buy the interest down enough so that the rate paid by the borrower will not be any higher than what they pay under the direct loan program? If you can't, doesn't that mean lenders will be less likely to make loans because the borrowers will have a more difficult time making payments?

Answer: The interest rate will be assisted to a level that low-income applicants can reasonably afford to pay, and therefore we expect lenders will be favorably disposed towards making loans with FmHA's guarantee and interest assistance. The interest rate paid by the borrower will be tied to the relationship between the borrower's income and the area median income. Borrowers will pay amounts similar to what they now pay under our direct program.

RURAL DEVELOPMENT LOAN FUND

Question: You are proposing a $10 million increase in the Rural Development Loan Fund, which I am pleased to see. Please provide information on the default and delinquency rates of the current program.

Answer: Under the Intermediary Relending Program, 17 loans for $23,240,000 have been closed since program inception in fiscal year 1988. None of these borrowers have defaulted or are delinquent.

Question: Please provide examples of projects funded under this account.

Answer: One example is the Miami Area Economic Development Service, Inc. MAEDS) of Miami, Oklahoma, which received a one million dollar loan, in November 1988. The funds were used to make 11 loans to area businesses, helping to create 908 jobs. MAEDS serves a two-county area in North East Oklahoma with an economy devastated in recent years by several plant closings that removed 2,600 jobs.

Another example is the North Central Pennsylvania Regional Planning and Development Commission, Ridgway, Pennsylvania, which received a $500,000 IRP loan, approved in December 1988. The organization has subsequently made eight loans to businesses within its six-county service area. The loans have helped to create 55 jobs.

Question: What is the current backlog of applications for this money?

Answer: There are currently 37 applications in process for Intermediary Relending Program loans which have not been funded for a total of $54.7 million.

Question: What is the status of the proposed regulations for this program?

Answer: The final rule creating regulations to implement the program was published in the Federal Register on August 15, 1988. A proposed rule to revise the regulations was published on October 11, 1989, and the comments received from the public were generally supportive. A final rule to implement revisions has been prepared and is under review.

HOUSING PRESERVATION GRANT PROGRAM

Question: What was the demand for housing preservation grants in fiscal year 1989? How many applications, at what dollar value, did FmHA receive?

Answer: The Housing Preservation Grant Program was made available on a competitive basis in FY 1989. The applications for funds exceeded the appropriation of $19,140,000. The FmHA received 250 applications, totaling $56 million of which 158 were selected for funding.

RURAL WATER APPLICATION - LANGDON, ND

Question: Recently, I have been contacted by Langdon Rural Water in North Dakota which has an application in with FmHA for rural water assistance. I am not aware of a problem in terms of its application, but the funding has not yet been received--perhaps because of a match requirement. What is the status of that application?

Answer: FmHA has determined the Langdon Rural Water Association to be eligible for financial assistance. Langdon officials are working with the State of North Dakota to obtain Municipal Rural and Industrial (MR&I) grant funds. When Langdon officials obtain the MR&I grant funds, FmHA can proceed with the processing of their application. Langdon officials made the decision to obtain the MR&I grant; this was not an FmHA requirement. However, applicants such as Langdon are encouraged to obtain other funding, if possible, so that FmHA funds can be used to assist a larger number of rural communities.

Question: What is the usual match requirement for water and sewer grants and loans?

Answer: FmHA's loans can be made for 100 percent of eligible project costs. Water and sewer grants can be made up to a maximum of 55 to 75 percent of eligible project costs based on the median household income of the service area. Grant levels are also determined based on the amount of grant funds needed to achieve a reasonable user rate.

Question: What is the requirement in terms of the mix of grant and loan money for applications?

Answer: The mix of FmHA loan and grant funds vary widely from project to project based on factors such as income, debt service, number of users, etc.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

RURAL HOUSING LOAN PROGRAMS

Question: The budget proposes a new program for rural housing which would provide interest-rate assistance (subsidy) for guaranteed loans to low-income borrowers. Has the Administration contacted the American Bankers Association, the U.S. League of Savings and Loans and other trade associations of private sector lenders to ascertain the interest or support of their membership in making loans to be guaranteed under your proposal for section 502 home ownership?

Answer: In March 1989, FmHA published an interim rule implementing the Rural Housing Guaranteed Loan Demonstration program as authorized in the Housing and Community Development Act of 1987. FmHA received comments from trade associations supporting the implementation of a guaranteed lending program for Rural Housing. Some of the comments we received suggested that the Agency implement an interest assistance program for the guaranteed loans. In addition to the comments received on the demonstration program, FmHA has contacted Ginnie Mae, Fannie Mae, Freddy Mac and Farmer Mac to get their input on the program. The Association of State and Local Housing Finance Agencies has shown interest in the program as well.

Question: The law requires that 40% of section 502 funds go to households with income at or below 50% of the median. In Mississippi we have used twice the amount allocated under this category. Is it very likely that private sector lenders would be willing to make loans even with guarantees and subsidies to very low-income households?

Answer: We recognize that it is not likely that very low-income households would be able to get loans from private sector lenders, even with subsidies and guarantees. For this reason, we have proposed to continue to serve very low-income households with our direct loan program.

Question: Will the subsidy provided under the proposed guarantee be equal to that provided under current law? Will very-low income families be able to receive 1% interest rates on their loans?

Answer: Borrowers will generally be required to pay amounts that are similar to or slightly higher than what they would pay under FmHA's current direct program. The new method of determining the level of interest assistance under the guaranteed program will establish the rate to be paid by the borrower based on the borrower's income level in relation to the area median income.

In the case of very low-income borrowers, the Agency envisions that these borrowers would be assisted with the funding requested under the direct section 502 program. As such, assistance to very-low income borrowers will be equal to the present program, and their effective interest rate may be as low as one precent.

SELF-HELP HOUSING GRANTS

Question: FmHA published proposed regulations for self-help housing technical assistance grants on April 25, 1989. What is the status of those regulations? It has been almost a year since the proposed rule was first issued; what is the reason for the delay in final rule making?

Answer: FmHA Instruction 1944-I is scheduled for final rule making in June 1990. After its publication for public comments on April 25, 1989, four formal meetings were held over a period of months to discuss the proposed regulation with various interest groups such as, grantees, FmHA field personnel and regional self-help technical and management contractors.

The input by those groups served to enhance the soundness of what will soon be the final rule. Without that input, the final rule would have been unworkable for a significant number of grants in states where state laws conflicted with the proposed requirements.

QUESTIONS SUBMITTED BY SENATOR KASTEN

AG CREDIT ACT OF 1987 AND CONSERVATION

Question: Section 616 of the Agricultural Credit Act of 1987 authorized you to transfer Farmer's Home inventory lands to federal or state agencies for conservation purposes under certain conditions. I understand that so far only 13 tracts out of 413 requests have been agreed to by the Farmers Home Administration. Many of these areas include wetlands.

Answer: As authorized by Section 616 of the Agricultural Credit Act of 1987, the Secretary, without reimbursement, may transfer to any Federal or state agency any real property for conservation purposes however, the rights of all prior owners and operators to such property must have expired. In addition, such property must be of marginal value for agricultural production, by environmentally sensitive, or have special management importance. Current FmHA regulations provide the Administrator with the authority to approve such transfers. As of March 13, 1990, we have received 105 requests for transfers. Of this number, 16 have been approved, 9 have been denied, 56 are pending, and 24 have been returned to the state Offices as requested by the state directors.

Question: Is there a major impediment to going ahead with this program or can you assure me that these requests will be acted upon?

Answer: We have experienced no major impediments in implementing this program. We must first determine that borrowers and/or prior owners residual rights have been properly dealt with before transferring title. Once the determinations have been made, we look for no impediments. In the interim, no degradation of wetlands can or will occur.

QUESTIONS SUBMITTED BY SENATOR GRASSLEY

Question: Is the two million requested for State Mediation Programs enough money to meet current demand for mediation?

Answer: The Agency anticipates that once the initial request for debt restructuring of delinquent FmHA Farmer Programs Loans have been processed in FY 1990, that new and subsequent requests for State Mediation will sharply drop in FY 1991 to $2 million.

Question: Has this program been successful in reducing the number of foreclosures by the FmHA?

Answer: Mediation services provided by USDA Certified State Agricultural Loan Mediation Programs are an integral part of the restructuring provisions of the Agricultural Credit Act of 1987. FmHA State Directors report that USDA Certified State Loan Mediation Programs are effective, well run, and provide a positive atmosphere to help parties discover options to resolve financial problems. The success of the program has hinged largely on communication and ready access between the Agencies to immediately resolve areas of disagreement. Most FmHA State Directors have reported that the USDA Certified State Loan Mediation Program has reduced the need for litigation for foreclosures and bankruptcies.

FEDERAL CROP INSURANCE CORPORATION

QUESTIONS SUBMITTED BY SENATOR BURDICK

FEDERAL CROP INSURANCE TERMINATION

Question: In what months of the year do sales of crop insurance generally begin?

Answer: Sales occur in virtually every month for some crop in some area of the country.

Question: What commodities have the earliest termination date for purchasing crop insurance?

Answer: The first termination date for sales for the 1991 crop year was November 30, 1989, for citrus crop production in Arizona, California, and Texas. Other sales closing dates for the 1991 crop year extend from May 31, 1990, for citrus trees in Texas, to July 31, 1991, for raisins. Sales closing dates for major crops include September 30, 1990, for wheat, barley, and oats in the southern Great Plains and most of the eastern United States; and February 15, 1991, March 31, 1991, and April 15, 1991 for most spring planted crops, such as corn, soybeans, grain sorghum, and wheat in selected areas. Sales closing dates for the spring planted crops are earliest in southern Texas.

Question: Does the Administration have an interim plan for protection that will avoid cancellation of crop insurance policies in effect in the middle of the year?

Answer: The FCIC is continuing to operate the crop insurance program under existing authority for as long as funding is available. We will continue to meet the terms and conditions of crop insurance contracts sold for 1990 under appropriations already provided. For contracts which may be entered into for the 1991 crop year, we will respond to the will of the Congress as expressed in both authorizing and appropriations legislation.

Question: Acknowledging that no disaster assistance legislation has been adopted into law, and as FCIC manager, what advice would you give to producers now who must make a decision on whether or not to purchase crop insurance for the 1991 crop year?

Answer: Since the FCIC is continuing to operate its program under current authority, and since we have no indication of the direction that the Congress wishes to pursue, it would appear prudent for producers to consider crop insurance. We are obligated, however, to make certain that producers are aware of the reliance of the program on Congressional action on funding as well as questions on the design of any program which might be approved by Congress.

Question: Technically, what is the difference between the policies written in fiscal year 1989 and the policies currently being written in fiscal year 1990?

Answer: We changed the definition of county in the cotton and rice policies and also changed the definition of a unit. These actions made the policies for these two crops consistent with the other major field crops. We also changed the unit definition for soybeans to provide unit division in states in which this had not been allowed in recent years. We provided producers with the opportunity to exclude high risk land from their insured acreage. We provided units by variety for grapes in California. No substantive changes were made in fundamental terms and conditions of the insurance offer for the major commodities. Some minor adjustments to clarify intent were made for selected crops. Some crops were converted from the self-contained policy format to a format in which the crop is insured under an endorsement to a General Policy. Generally, however, the terms and conditions of such endorsements are comparable, if not identical, to those of the policy which was replaced.

Question: Why has FCIC issued interim regulations requiring policies to carry a notice that they are subject to appropriations this year, when last year's policies were not required to carry such a notice?

Answer: The fact that prior years' policies did not carry such a notice does not alter the fact that crop insurance contracts, as well as any other contract with the government, are subject to appropriations approved by the Congress. We have such language written into our arrangements with the companies who participate with us in the program. We intend that such language will be included in all future crop insurance policies.

Question: Are you aware the insurance companies are currently cancelling policies as a result of your action?

Answer: We are not aware of any company that has actually cancelled an insurance policy at this time. A number of companies have expressed concern over the availability of funds issue, but many are reacting, not to our notice to policyholders, but to an earlier bulletin reminding them of the contingency clause in their contract with us in view of the Administration's budget.

DRY EDIBLE BEANS

Question: Mr. Secretary, you are familiar with the problem my bean producers in North Dakota have been having with the crop insurance program. Have you worked that problem out yet?

Answer: FCIC has participated in a number of meetings at the state, regional, and national level to discuss the issues. We believe that these meetings have established a relationship which will serve us well in the future. In particular, we believe that our need for objective information on which to base decisions has been communicated. All parties have indicated a desire to work with us to improve the program for dry edible beans.

Question: Will there be equity between the price election for dry edible beans in North Dakota, Michigan, Minnesota, and other states?

Answer: The differential in the price elections for dry edible beans among these states was based upon the best information available to us at the time the decisions were made about one year ago.

Since then, many associations of producers, including Northarvest of the North Dakota and Minnesota region, have provided historical pricing data by type of bean. Some information was received in March and has not yet been completely analyzed due to the need to complete other price election work. We anticipate that future differentials in price elections will be based upon better information than was available for 1990. As is our practice, we also plan to review the outlook and situation for dry edible beans with knowledgeable persons in the industry and in academia. Our discussions these past several months have enabled us to identify a number of persons who are willing to work with us as we strive to improve the insurance program for dry edible beans.

ANNOUNCEMENT OF ADMINISTRATION'S CROP INSURANCE PROPOSAL

Question: What impact do you expect the Secretary's announced proposal for termination of crop insurance to have on farmers and the insurance industry?

Answer: We anticipate a time of uncertainty; however, we have indicated our intention to continue to operate normally while the legislative process moves forward. We continue to give assurances that we will operate the program as long as funds and authority are available, and hope that both producers and companies will respond to this approach.

Question: If Congress does not accept the Secretary's proposal, do you believe that the stability of risk protection programs will suffer as a result of the termination announcements?

Answer: We must make clear that we have not sent, nor has any company to our knowledge issued, any cancellation notices. We have drawn attention, by the publication of an endorsement which will eventually be made a part of all crop insurance policies, to the fact that the current crop insurance program is subject to Federal funding. We do not believe that this position will adversely affect the decision of producers to consider crop insurance.

Question: What advice would you give to a farmer participant in the crop insurance program, as he seeks to insure his crop against disaster?

Answer: Since crop insurance is the only standing program of assistance available, a producer should take that into account when making decisions relative to the 1991 crop year.

Question: Should he rely on disaster assistance payments as his sole source of protection for the 1991 crop year?

Answer: Should the Congress change the programs which are available, we would assume that Congress would address the questions raised by overlapping programs, and, of course, we have provided for alerting the producer to that possibility with our endorsement.

Question: Should the farmer renew his crop insurance policies? If so, what assurance will he receive from the Department of Agriculture that his indemnities will be honored?

Answer: As I have indicated, the producer should take whatever action appears to him to be prudent in view of the need for protection. The Department of Agriculture is not in a position to give any assurances relative to the expenditure of funds for any program prior to Congressional action on such funding. The Department does not have any authority to expend funds unless authorized and appropriated by the Congress.

TERMINATION OF FCIC

Question: Why did the Administration decide that FCIC operations should be terminated this year?

Answer: After careful review of the history of the crop insurance program, an assessment of the funds which have been expended during the past ten years, and consideration of the objectives of public policy for producer protection, the Administration determined that a standing disaster program based on county-wide loss experiences was a prudent approach to disaster experiences for individuals and communities. Once that decision was made, the proposal to move forward with implementation was driven by both the fact that major farm legislation was before the Congress this year, and by the fact that another year of a faulty crop insurance program would likely cost the government more than one billion dollars.

Question: Which is a more cost effective disaster relief program--disaster assistance payments or crop insurance?

Answer: According to a study by the General Accounting Office, the use of the insurance approach is more efficient if there are assurances that no disaster payments, which are duplicative and serve as a disincentive for crop insurance, are available. We agree that a participatory program, particularly one where both private insurance companies and producers bear some of the risk, is more appropriate. Unfortunately, the legislating of disaster payments has led to excessive costs and underlying weakness in the operation of crop insurance.

Question: If the Administration's disaster assistance proposal were adopted, what protection would be offered to a farmer if he suffers a complete loss, but his county is not declared eligible for disaster assistance payments?

Answer: We anticipate that the ability to rely on an underlying level of catastrophic loss benefits will encourage the private insurance sector to develop additional types of coverage for producers. The private insurance industry has long provided fire and hail insurance, and we believe that the opportunity to build on the disaster program will make additional coverages available to producers and provide them with opportunities for protection when the county loss trigger is not met.

Question: Since 1980 the combined cost of all USDA agricultural disaster relief programs has averaged $2 billion each year. Based on this fact, shouldn't the USDA budget include at least $2 billion in disaster relief?

Answer: The President's Budget is a statement of his policy proposals for federal programs, not a presentation of historical average spending levels. President Bush's fiscal year 1991 proposal for crop insurance would eliminate its redundancy with the ad hoc disaster assistance. Permanent authority for the Secretary will allow compensation to be provided to farmers in the event of catastrophic loss.

IMPROVEMENTS IN FEDERAL CROP INSURANCE

Question: One alternative suggested for fixing the federal crop insurance system is to provide, free-of-charge, all program producers with 50 percent crop insurance coverage. Producers would have the option of purchasing additional coverage. Do you have any estimates of how much such a program would cost the federal government compared to the current program?

Answer: We estimate the cost of the free protection to program crop producers would be $925 to $1,075 million per year for the free portion. The range of the estimate depends upon any required cross compliance for the ASCS program to establish eligibility for the free crop insurance protection. Other costs of the crop insurance program depend upon the subsidies that Congress provides for the additional crop insurance. A program with the current subsidy arrangements and 50 percent free to all producers--not just program crops could cost $1.9 to 2.4 billion.

Question: Do you have any estimates of whether such a program would provide sufficient coverage to forestall the implementation of an ad hoc disaster assistance program in the event of a significant drought or other type of catastrophe?

Answer: There is, of course, no method to anticipate the behavior of producers, or the response of Congress, in the event of a widespread crop loss. However, universal coverage under the free 50 percent disaster payment program should be sufficient to avoid supplemental ad hoc payment programs.

CROP INSURANCE FOR CITRUS AND WHEAT

Question: When are decisions concerning whether to purchase crop insurance made by wheat and citrus producers?

Answer: The precise timing of purchase decisions is not known since it could occur at any time during the year. However, citrus producers in Arizona, California, and Texas must make their decision for a crop year by November 30 of the second year preceding the crop year. For example, the sales closing date for 1991 crop year citrus in these states was November 30, 1989. Producers in Florida must make their decision by August 15 of the year preceding the crop year, for example August 15, 1990 for the 1991 crop year. The difference among these states is due to unique characteristics of the insurance policy offered in Florida. Producers of wheat in much of the country must purchase insurance by September 30 of the year preceding the crop year, for example September 30, 1990 for the 1991 crop year. Sales closing dates in some states are later than

September 30. The sales closing date for areas of the country which primarily produce spring wheat is April 15 of the same year.

Question: What impact do you expect the Administration's proposal to terminate federal crop insurance subsidies to have on farmers of these particular commodities?

Answer: Since the FCIC has indicated its intention to continue to operate the program as long as Congress does not direct otherwise, we would anticipate that producers would make their decisions on the basis of sound business management. As Congress makes decisions regarding the program and funding for the 1991 budget, the picture will become clearer and producers will be able to exercise whatever options may become available.

Question: What assurances will these producers have that their policies will not be cancelled if the Administration's proposals were adopted?

Answer: Any reliance on the integrity of the crop insurance contract lies in the appropriations and legislative process. The FCIC continues to operate according to current law and regulations, but is constrained as to funding by the action of the Congress.

Question: Is the current raisin crop governed under the standard reinsurance or master marketer agreement for 1990 or 1991?

Answer: The reinsurance or service year includes all crops with sales closing dates that fall within the 12 month period covered by the agreement. Because of its sales closing date--July 31, 1990, the 1990 raisin crop will be included under the 1991 agreements.

TERMINATION OF FEDERAL CROP INSURANCE

Question: According to the budget, under existing law, crop insurance participation estimates for the 1990 crop year are expected to decline from 1989 levels. What is the general trend in crop insurance participation over the past five years?

Answer: Net acres insured for the past five years were: 1985, 48.6 million; 1986, 48.7 million; 1987, 49.1 million; 1988, 53.7 million; and 1989, 99.9 million. The increase in 1989 may be attributed to several factors, but we believe that some of the increase is not permanent.

Question: Why is participation expected to decline in 1990, under current law?

Answer: Generally, insured acreage tends to increase the year after a wide-spread disaster. Also, some of the increase in 1989 was due to required participation in crop insurance if the producer accepted a disaster payment in 1988. We believe that there will be decline in the insured acreage when these factors no longer are important in producer decisions. I will submit a table to summarize this information for the record.

[The information follows:]

SUMMARY OF EXPERIENCE
FCIC/REINSURANCE

CROP YEAR	NET ACRES (IN THOUSANDS)	PREMIUM ($ IN THOUSANDS)	INDEMNITIES ($ IN THOUSANDS)	LOSS RATIO
1985	48,574	439,991	682,695	1.55
1986	48,722	381,103	615,562	1.62
1987	49,113	366,640	369,163	1.01
1988	53,700	437,654	1,053,775	2.41
1989	99,875	800,000	1,360,000	1.70
TOTALS	299,984	$2,425,388	$4,081,195	1.68

Question: What is the trend in the ratio of indemnities to total premium over the past five years?

Answer: Loss ratios for the past five years are: 1985, 1.55; 1986, 1.62; 1987, 1.01; 1988, 2.41; and 1989, 1.70.

Question: Under current law, does FCIC expect the loss ratio to improve in 1990?

Answer: The 1990 loss ratio is projected to be 1.5. The loss ratio for 1989 as reflected in the 1991 Budget is 1.7. However, the latest information on 1989 actuals depicts a loss ratio of 1.5.

Question: Is there a correlation between declining participation and reduction in the loss ratio--both of which were estimated in the budget for the 1990 crop year?

Answer: There is no correlation between the estimated 1990 premium and loss ratio. The projected decline in the 1990 crop premium reflects a return to more normal levels following the impacts of the 1988 drought on participation and crop prices in 1989. The 1990 premium estimate also reflects the declining impact of mandatory participation features of the 1988 and 1989 disaster payment programs. The loss ratio is the result of incurred claims experience from perils covered by the policy during the crop year. It is impossible to accurately predict the actual loss ratio for a given crop year. The estimate used for the budget is simply that--an estimate based upon recent experience.

COMMISSION FOR THE IMPROVEMENT OF THE FEDERAL CROP INSURANCE PROGRAM

Question: The July 1989 report of the Commission for the Improvement of the Federal Crop Insurance Program included several recommended changes to the current crop insurance program. Which of these recommendations has FCIC implemented?

Answer: For the 1990 crop year, FCIC has implemented the recommendations concerning processor yield guarantees, definitions of units, and the improved appeals process. In the case of the last recommendation, the improvement is within FCIC, not independently of it as was recommended. Work has begun to implement four recommendations for subsequent crop years if the program is continued. These include the experience rating system, the premium rating system, improved presentation of rate and coverage exceptions, and the tracking of individual producers and an individual risk underwriting system. Eight additional recommendations have been accepted but no action has been taken pending clarification of program direction. These are:

--late planting
--fire and hail exclusion
--county loss pilot program
--eliminate discriminatory provisions in other USDA programs
--penalty for false certification by farmers
--improving the administration of FCIC
--update statute
--role of FCIC as a reinsurer

No action has been taken on six of the recommendations. These have been held pending clarification of program direction. They are:

--yield guarantee plans
--price election levels
--pilot programs
--program expansion
--improved presentation of coverage
--cash discounts

Question: Which of the recommendations has FCIC rejected? Why?

Answer: Five recommendations have been rejected. These are:

--update ASCS yields. Rejected because of the potential impact on price support programs.
--prevented planting. Rejected because ASCS 0/92 provisions provide better coverage.
--early claims adjustment. Rejected because of potential for fraud and abuse.
--85% level of coverage. Rejected because unsound and difficult to rate properly.
--level and distribution of subsidies. Rejected because costs are excessive for the benefits.

Question: Of those recommendations that would require new legislation, with which does FCIC agree and with which does FCIC disagree? Assume that there is no proposal to terminate the FCIC and that effective risk protection would be administered under FCIC.

Answer: FCIC agrees with most of the recommendations requiring legislation to fully implement. These with which we agree are:

- --fire and hail exclusion.
- --eliminate discriminatory provisions in other USDA programs.
- --penalty for false certification by farmers.
- --update statute.
- --role of FCIC as reinsurer.
- --pilot programs.

FCIC disagrees with three of the recommendations requiring legislation. These are:

- --update ASCS yields. Disagree because of potential impact upon the price support programs.
- --85% level of coverage. Disagree because unsound and difficult to rate properly.
- --level and distribution of subsidies. Disagree because costs are excessive for the benefits.

RURAL ELECTRIFICATION ADMINISTRATION

QUESTIONS SUBMITTED BY SENATOR BURDICK

BUDGET PRINCIPLES

Question: Repeatedly, members of the administration have drawn the conclusion that the REA telephone and electric borrowing programs are a drain on the Treasury of the United States and that they are, to a large extent, responsible for a good share of the national debt this country has accumulated.

While recognizing that there are administrative and interest costs associated with the program, I believe this accusation is unfounded.

Can you explain how this program, a revolving fund where funds are loaned to borrowers at the same time other borrowers are repaying similar loans along with interest to the fund, could possibly create a significant drain on the Treasury?

Answer: Operations of the Rural Electrification and Telephone Revolving Fund (RETRF) are affected by receipts and disbursements. When receipts are not sufficient to meet the cash needs of the fund, REA must borrow from the Treasury. Since 1976, the fund has had to supplement principal and interest collections with Treasury borrowings to meet its obligations. The interest on these borrowings is substantially higher than the interest REA charges to borrowers on loans made by the fund. Any program which lends money at a significantly lower interest rate than that at which Treasury borrows represents a drain on the Federal budget. A table comparing the interest rates will be provided for the record. [The information follows:]

Interest Rate on REA Loans vs. Cost of Money to the Government

Fiscal Year	REA Loans*	Government Cost of Money**
1973	3.72	6.129
1974	4.52	7.030
1975	4.42	6.533
1976	4.02	6.559
TQ	3.92	6.591
1977	3.88	6.481
1978	4.35	7.388
1979	4.27	8.592
1980	4.37	9.608
1981	4.38	12.435
1982	4.48	12.082
1983	4.90	10.850
1984	4.95	11.383
1985	4.99	10.383
1986	5.00	9.193
1987	4.96	8.695
1988	4.96	8.770
1989	5.00	9.043

* Weighted average interest rate on loans approved during the Fiscal Year.

** Computed annual interest rate on marketable Treasury issues. Source: Monthly Statement of Public Debt, U.S. Treasury.

This interest subsidy is costly to the RETRF and increases net Federal outlays. Appropriations to reimburse the fund for losses create an additional expense for the Treasury. At the end of fiscal year 1989, a total of $1.2 billion had been appropriated by the Congress to offset loan defaults, losses and interest subsidies of the revolving fund. Disbursements from the fund during the 10-year period from fiscal year 1980-1989 exceeded borrowers' repayments by $4.2 billion. A table showing borrower collections and total disbursements of the fund will also be provided for the record. [The information follows:]

Rural Electrification and Telephone Revolving Fund
Net Result of Lending Operations
Fiscal Years 1980-1989
(in millions of dollars)

RECEIPTS

Fiscal Year	Repayments from REA Borrowers	Appropriations by Congress	Total
1980	686.0	--	686.0
1981	745.7	--	745.7
1982	815.2	--	815.2
1983	866.7	--	866.7
1984	905.1	197.9	1,103.0
1985	950.7	216.0	1,166.7
1986	967.0	99.4	1,066.4
1987	1,437.1	20.0	1,457.1
1988	1,082.8	327.7	1,410.5
1989	1,088.4	341.0	1,429.4
TOTAL	9,544.7	1,202.0	10,746.7

DISBURSEMENTS

Fiscal Year	Advances to Borrowers	Payments on Guaranteed Loans	Interest Expense to Treasury	Total
1980	1,206.8	--	144.1	1,350.9
1981	1,203.8	--	228.4	1,432.2
1982	1,048.0	--	316.5	1,364.5
1983	855.6	--	368.0	1,223.6
1984	780.0	--	395.5	1,175.5
1985	797.1	164.0	408.9	1,370.0
1986	960.9	163.6	437.9	1,562.4
1987	752.1	240.8	464.7	1,457.6
1988	757.3	119.3	438.2	1,314.8
1989	880.2	170.7	434.7	1,485.6
TOTAL	9,241.8	858.4	3,636.9	13,737.1

Question: Is it true that due to the accounting procedures utilized in the Federal budget process the loan repayments never show up as credits to the REA budget, and therefore, on paper, it would appear the loan programs are creating large losses?

Answer: No, that is not true. Outlays, which are important in determining if Gramm-Rudman-Hollings targets are met, are the net of all receipts and disbursements of the RETRF. Principal and interest collections are major receipt items for the revolving fund and show up in both cash flow and outlay calculations. RETRF outlays for fiscal year 1989 include $1,088.4 million in principal and interest repayments.

Question: Would you support steps that would be designed to reflect more accurately the low cost of the revolving fund?

Answer: Yes. Credit Reform legislation which has been proposed in each of the last several budgets would reflect the cost of loan programs. Current net loan cash flows give little indication of the ultimate taxpayers' cost. Credit Reform would correct circumstances where direct loans appear as costly as grants--with no recognition of future repayments, or where guaranteed loans appear costless--with no recognition of possible future default outlays. The subsidies on the $1.6 billion in direct and guaranteed loan levels requested in the FY 1991 Budget are estimated to be $188 million.

REIMBURSEMENTS

Question: What are the losses to the Rural Electrification and Telephone Revolving Fund that have not previously been reimbursed to date: List the cause of the losses and dates they were incurred.

Answer: REA has had $44,478 in losses to date. An additional $925.6 million has been paid to FFB or on guaranteed loans on behalf of some power supply borrowers whose loans have been restructured, or are experiencing financial difficulty. A Special Projects Staff has been established to coordinate workout plans for these borrowers, and those who may experience financial difficulty, to enable them to repay their Government debts. To date, five workout agreements have been successfully negotiated and the borrowers are making payments on their debt. Workout efforts to help other financially distressed borrowers and to protect the Government's investment is an ongoing activity.

A list of these payments and the reimbursements appropriated by Congress for these payments will be provided for the record. [The information follows:]

REA PAYMENTS TO FFB AND OTHER LENDERS

Fiscal Year	Loan Losses	Payments to FFB and Other Lenders	Appropriations By Congress (Reimbursement to RETRF)
Prior to 1985	$44,478	--	N/A
1985	--	$164,028,006	N/A
1986	--	163,647,022	N/A
1987	--	240,819,587	N/A
1988	--	119,340,120	$327,675,000
1989	--	170,689,663	341,000,000
1990	--	332,000,000 est.	240,757,000
	44,478	1,190,524,128	909,432,000
			533,226,000*
			1,442,658,000

*Note: Also provided as reimbursements to RETRF are:

1984	197,862,000)	Reimbursement for losses
1985	215,964,000)	inclusive of imputed interest
1986	99,400,000)	Compromise House and
1987	20,000,000)	Senate Appropriation
	533,226,000	

RURAL ECONOMIC DEVELOPMENT SUBACCOUNT

Question: Please provide expenditures under the rural economic development subaccount to date showing the amounts awarded, the recipients, and the dates of the awards.

Answer: A detail listing of the disposition of all applications received, by borrowers, for rural economic development assistance will be provided for the record. [The information follows:]

RURAL ECONOMIC DEVELOPMENT ACTIVITY
BY APPLICATION PERIOD
(as of April 13, 1990)

APPLICATION SUBMISSION PERIOD: February 15 - April 14, 1989*

BORROWER NAME/ REA DESIGNATION	AMOUNT REQUESTED	TYPE OF APPLICATION	DISPOSITION 1/
Sequachee Valley Electric Cooperative TN 35	$100,000	Loan	Selected 5/2/89
Lumbee River Electric Membership Corp. NC 51	50,000	Loan	Selected 5/2/89
Cheyenne River Sioux Tribe Telephone Auth. SD 533	100,000	Loan	Selected 5/2/89
The Pine Telephone Co. OK 550	70,000	Loan	Selected 5/2/89
Brunswick Electric Membership Corp. NC 40	100,000	Loan	Selected 6/5/89
Volunteer Electric Cooperative TN 1	100,000	Loan	Selected 6/5/89
North Pine Electric Cooperative MN 89	25,000	Loan	Selected 6/5/89
Blue Ridge Electric Membership Corp. NC 23	100,000	Loan	Selected 7/28/89
Upper Cumberland Electric Membership Cooperative TN 25	100,000	Loan	Withdrawn
Chickasaw Electric Cooperative TN 49	100,000	Loan	Pending (Withdrawn & resubmitted 2/90)

* REA established a special extended submission period after the regulation was published on February 15, 1989.

BORROWER NAME/ REA DESIGNATION	AMOUNT REQUESTED	TYPE OF APPLICATION	DISPOSITION 1/
Washington Electric Cooperative, Inc. VT 8	100,000	Loan	Withdrawn
The Terril Telephone Company IA 656	70,000	Loan	Selected 7/28/89
Topsham Telephone Company, Inc. VT 502	100,000	Loan	Project not in accordance with regulation
Emery County Farmers Union Telephone Association Inc. UT 501	100,000	Grant	Withdrawn
Interstate Telecommunications Co-op., Inc. SD 538	70,000	Grant	Withdrawn
Charles Mix Electric Association, Inc. SD 32	100,000	Grant	Pending
Southwest Louisiana Electric Membership Corp. LA 9	63,800	Loan	Selected 7/28/89
Matanuska Electric Association, Inc. AK 2	50,000	Grant	Pending
Fall River Rural Electric Cooperative, Inc. ID 17	40,000 60,000	Loan Grant	Withdrawn
Volunteer Electric Cooperative TN 1	100,000 (Meigs County)	Loan	Selected 2/20/90
Cass County Electric Cooperative, Inc. ND 11	15,000	Grant	Pending
Kit Carson Electric Cooperative, Inc. NM 11	45,000	Loan	Selected 2/20/90

BORROWER NAME/ REA DESIGNATION	AMOUNT REQUESTED	TYPE OF APPLICATION	DISPOSITION 1/
Washington Electric Cooperative, Inc. VT 8	100,000	Loan	Withdrawn
The Terril Telephone Company IA 656	70,000	Loan	Selected 7/28/89
Topsham Telephone Company, Inc. VT 502	100,000	Loan	Project not in accordance with regulation
Emery County Farmers Union Telephone Association Inc. UT 501	100,000	Grant	Withdrawn
Interstate Telecommunications Co-op., Inc. SD 538	70,000	Grant	Withdrawn
Charles Mix Electric Association, Inc. SD 32	100,000	Grant	Pending
Southwest Louisiana Electric Membership Corp. LA 9	63,800	Loan	Selected 7/28/89
Matanuska Electric Association, Inc. AK 2	50,000	Grant	Pending
Fall River Rural Electric Cooperative, Inc. ID 17	40,000 60,000	Loan Grant	Withdrawn
Volunteer Electric Cooperative TN 1	100,000 (Meigs County)	Loan	Selected 2/20/90
Cass County Electric Cooperative, Inc. ND 11	15,000	Grant	Pending
Kit Carson Electric Cooperative, Inc. NM 11	45,000	Loan	Selected 2/20/89

BORROWER NAME/ REA DESIGNATION	AMOUNT REQUESTED	TYPE OF APPLICATION	DISPOSITION
Rural Electric Cooperative, Inc. OK 20	50,000	Loan	Selected 12/1/89
	50,000	Loan	Pending
	50,000	Loan	Pending
	50,000	Loan	Pending
Iowa Lakes Electric Cooperative IA 92	100,000	Loan	Selected 9/25/89
North Star Electric Cooperative, Inc. MN 95	100,000	Loan	Selected 7/28/89
West Plains Electric Cooperative, Inc. ND 33	50,000	Loan	Selected 9/25/89
Sequachee Valley Electric Cooperative TN 35	100,000	Loan	Selected 9/25/89

1/ Applications not selected may remain under consideration for up to 1 year without modification. These applications are reconsidered during subsequent application periods. A borrower may revise an application already on file without resubmitting the entire application.

APPLICATION SUBMISSION PERIOD: June 1 - 14, 1989

BORROWER NAME/ REA DESIGNATION	AMOUNT REQUESTED	TYPE OF APPLICATION	DISPOSITION
Monroe County Electric Co-op, Inc. IL 31	100,000	Loan	Pending
Oceana Electric Cooperative MI 41	100,000	Loan	Selected 7/28/89
Sac Osage Electric Cooperative, Inc. MO 55	20,000	Loan	Selected 7/28/89
Harkers Island Electric Membership Corp. NC 38	100,000	Loan	Pending

BORROWER NAME/ REA DESIGNATION	AMOUNT REQUESTED	TYPE OF APPLICATION	DISPOSITION
Lumbee River Electric Membership Corp. NC 51	75,000	Loan	Selected 2/20/90
The Northwestern Rural Electric Co-op Association, Inc. PA 4	16,200	Loan	Selected 7/28/89
Moreau-Grand Electric Co-op, Inc. SD 38	36,000	Loan	Pending
York Electric Cooperative, Inc. SC 41	100,000	Loan	Pending
Volunteer Electric Cooperative TN 1	45,000	Loan	Selected 4/11/89
Volunteer Electric Cooperative TN 1	30,000	Loan	Selected 7/28/89
Tri-County Electric Membership Corporation TN 9	100,000	Loan	Selected 7/28/89
The Farmers Telephone Company, Inc. CO 530	100,000	Loan	Project not in accordance with regulation
The Golden Belt Telephone Association, Inc. KS 552	60,050	Loan	Withdrawn
Blackfoot Telephone Cooperative, Inc. MT 517	50,000	Loan	Selected 12/6/89
Egyptian Electric Cooperative Association IL 34	100,000	Grant	Withdrawn
Norton-Decatur Coop. Electric Co., Inc. KS 28	15,000	Grant	Withdrawn
East Mississippi Electric Power Association MS 45	100,000	Loan	Selected 9/25/89
Central Electric Power Cooperative, Inc. SC 50	60,000	Grant	Pending

APPLICATION SUBMISSION PERIOD: August 1 - 14, 1989

BORROWER NAME/ REA DESIGNATION	AMOUNT REQUESTED	TYPE OF APPLICATION	DISPOSITION
Parke County Rural Electric Membership Corp. IN 42	100,000	Loan	Selected 9/25/89
Southeastern Electric Cooperative, Inc. OK 27	100,000	Loan	Withdrawn
Southeastern Electric Cooperative, Inc. OK 27	100,000	Loan	Withdrawn
United Electric Cooperative, Inc. PA 28	100,000	Loan	Selected 9/25/89
Pee Dee Electric Cooperative, Inc. SC 26	100,000	Loan	Selected 9/25/89
Broad River Electric Cooperative, Inc. SC 33	95,000	Loan	Selected 12/1/89
East River Electric Cooperative, Inc. SD 43	100,000	Loan	Pending
Volunteer Electric Cooperative TN 1	100,000	Loan	Withdrawn
Fulton Telephone Company, Inc. MS 521	75,000	Loan	Selected 9/29/89
Cullman Electric Cooperative AL 18	100,000	Grant	Withdrawn
Cherryland Electric Cooperative MI 44	15,000	Grant	Pending
Oklahoma Western Telephone Company OK 555	100,000	Grant	Withdrawn

APPLICATION SUBMISSION PERIOD: October 1 - 14, 1989

BORROWER NAME/ REA DESIGNATION	AMOUNT REQUESTED	TYPE OF APPLICATION	DISPOSITION
Oliver-Mercer Electric Cooperative, Inc. ND 32	100,000	Loan	Selected 2/20/90
Tri-County Electric Membership Corporation TN 9	100,000	Loan	Pending
Cambridge Telephone Co. ID 512	100,000	Loan	Selected 12/1/89
Eastern Missouri Telephone Company MO 602	100,000	Loan	Pending
Mutual Telephone Company IA 503	100,000	Loan	Selected 2/20/90
River Valley Telephone Co-op IA 608	30,000	Loan	Selected 12/6/89
Clinton County Electric Co-op, Inc. IL 45	100,000	Loan	Selected 2/20/90
Davidson Electric Membership Corporation NC 35	12,000	Loan	Pending
A & E Electric Cooperative VA 39	29,000	Grant	Pending
Ridge Telephone Company, Inc. SC 502	100,000	Loan	Selected 2/20/90

APPLICATION SUBMISSION PERIOD: December 1 - 14, 1989

BORROWER NAME/ REA DESIGNATION	AMOUNT REQUESTED	TYPE OF APPLICATION	DISPOSITION
Dairyland Electric Co-op, Inc. MN 92	100,000	Loan	Selected 4/11/90
Rural Electric Cooperative, Inc. OK 20	100,000	Loan	Selected 2/20/90
Fireland Electric Cooperative, Inc. OH 83	100,000	Loan	Selected 4/11/90
East River Electric Power Cooperative, Inc. SD 43	100,000	Loan	Selected 4/13/90
Tri-County Electric Membership Corporation TN 9	100,000	Loan	Selected 2/20/90
Sequachee Valley Electric Cooperative TN 35	100,000	Loan	Project not in accordance with regulation
Hospers Telephone Exchange, Inc. IA 634	100,000	Loan	Selected 2/20/90
Federated Telephone Cooperative MN 562	75,000	Loan	Selected 2/20/90
Dell Telephone Cooperative, Inc. TX 569	15,000	Loan	Selected 2/20/90
Corn Belt Electric Cooperative, Inc. IL 38	100,000	Grant	Pending

APPLICATION SUBMISSION PERIOD: February 1 - 14, 1990

BORROWER NAME/ REA DESIGNATION	AMOUNT REQUESTED	TYPE OF APPLICATION	DISPOSITION
B-K Electric Cooperative, Inc. TX 123	35,000	Loan	Pending
Coos-Curry Electric Cooperative, Inc. OR 21	100,000	Loan	Pending
Wharton County Electric Cooperative TX 75	100,000	Loan	Selected 4/11/90
Sun River Electric Cooperative, Inc. MT 2	100,000	Loan	Selected 4/11/90
Lincoln-Union Electric Company SD 7	100,000	Loan	Selected 4/11/90
United Electric Cooperative, Inc. PA 28	100,000	Loan	Selected 4/11/90
Oceana Electric Cooperative MI 41	100,000	Loan	Pending
Oceana Electric Cooperative MI 41	50,000	Loan	Selected 4/11/90
Hendricks County Rural Electric Membership Corporation IN 33	100,000	Loan	Returned to Borrower
Southern Pine Electric Power Assoc. MS 40	100,000	Loan	Selected 4/11/90
North Central Missouri Electric Co-op., Inc. MO 56	100,000	Loan	Selected 4/11/90
Duo County Telephone Cooperative Corporation, Inc. KY 530	100,000	Loan	Pending

BORROWER NAME/ REA DESIGNATION	AMOUNT REQUESTED	TYPE OF APPLICATION	DISPOSITION
Blackfoot Telephone Cooperative, Inc. MT 517	50,000	Loan	Selected 4/11/90
Eastern Missouri Telephone Company MO 602	100,000	Loan	Selected 4/11/90
Midwest Electric Membership Corporation NE 88	100,000	Grant	Pending

Question: Provide information on applications made for these funds including the number of applications, from whom, and the disposition of the applications.

Answer: A summary table reflecting total rural economic development activity by application period will be provided for the record. [The information follows:]

SUMMARY OF RURAL ECONOMIC DEVELOPMENT ACTIVITY

Application Period	Applications Received		Selections Made	
	Number	Amount	Number	Amount
February 15 - April 14, 1989	25 loans	$1,913,800	17 loans	$1,323,800
	6 grants	395,000		
June 1-14, 1989	15 loans	1,032,250	9 loans	536,200
	3 grants	175,000		
August 1-14, 1989	9 loans	870,000	5 loans	470,000
	3 grants	215,000		
October 1-14, 1989	9 loans	742,000	6 loans	530,000
	1 grant	29,000		
December 1-14, 1989	9 loans	790,000	8 loans	690,000
	1 grant	100,000		
February 1-14, 1990	14 loans	1,235,000	9 loans	800,000
	1 grant	1,000,000		
Totals	81 loans	6,583,000	54 loans	4,350,000
	15 grants	1,914,000		

PREPAYMENTS

Question: To date, what prepayments have been allowed under the provision that allowed the prepayment of $500,000,000 worth of loans in the appropriations act?

Answer: No prepayments have been made by REA financed electric and telephone systems under the provisions authorizing the $500 million in prepayments.

Question: Are you currently accepting applications from telephone and electric borrowers for prepayment?

Answer: The 1989 Appropriations Act allocated $150 million of prepayments to telephone borrowers and $350 million to electric borrowers.

REA has received applications from 38 telephone borrowers in the approximate amount of $256 million. We are in the process of prorating these applications and notifying the borrowers of the amount of their prepayment allocation. We expect the borrowers to complete $150 million in prepayments by May 31, 1990.

Prepayment applications are not currently being accepted from electric borrowers. During the rulemaking process, it became necessary to modify and republish for public comments the proposed regulations covering the $350 million in prepayments for electric borrowers. REA is in the process of drafting the final rule and expects to publish final in May 1990.

Question: Please provide the chronology of actions relating to this provision beginning with the original enactment of it, including all actions taken by the administration with regard to rules and policies surrounding it. Show the dates of each action as well as the outcome of the action.

Answer: The chronology of action will be provided for the record. [The information follows:]

CHRONOLOGY OF ACTION ON FFB PREPAYMENTS

December 1987

The provision relating to the $500 million of prepayments was contained in the 1988 Appropriations Act (Public Law 100-202) enacted on December 22, 1987, as part of a provision authorizing $2.5 billion of prepayments without the approval of the Secretary of the Treasury.

On the same day, the Omnibus Budget Reconciliation Act of 1987 (OBRA) was enacted. OBRA contained provisions that limited prepayments during FY 1988 to $2 billion without the approval of the Secretary of the Treasury.

January 1988

In order to implement the provisions of OBRA, REA published an Interim Rule with Request for Comments on January 27, 1988. The

Secretary of the Treasury determined that par prepayments in excess of $2 billion would not be permitted. This Interim Rule only addressed prepayments to be made during FY 1988.

February 1988

REA borrowers prepaid $2 billion, completing the amount authorized by OBRA.

May 1988

REA requested an opinion from the Office of the General Counsel of the Department of Agriculture regarding the ability of REA financed systems to make prepayments, without the approval of the Secretary of the Treasury, in the additional amount of $500 million after the end of FY 1988.

June 1988

The Office of the General Counsel issued an opinion on June 23, 1988, stating its view that such prepayments were authorized.

July - November 1988

REA drafted the proposed rule covering the $500 million of prepayment authority and submitted for Department of Agriculture, Office of Management and Budget, and inter-governmental reviews.

November 1988 - February 1989

Discussions were held between the Department of Agriculture, the Office of Management and Budget and the Department of the Treasury regarding provisions of the proposed rule relating to prepayment utilizing internally generated funds (an option requested by REA borrowers). The three agencies cooperated in developing a request for an opinion from the Office of Legal Counsel, Department of Justice regarding this issue. The request for the opinion was filed on February 8-9, 1989.

May 1989

On May 2, 1989, the Office of Legal Counsel, Department of Justice, issued an opinion that prepayments could be made utilizing internally generated funds. On May 23, 1989, REA published the proposed rule covering these prepayments.

June 1989

The comment period ended on this proposed rule, and REA began to draft the final rule.

July - August 1989

Drafting of the final rule continued. The rule was circulated for agency and Department of Agriculture review. On August 30, 1989, it was submitted to the Office of Management and Budget for review and approval.

September - December 1989

The rule was reviewed by Executive Department agencies. In late December, it was decided to set aside the entire $350 million for troubled borrowers and to publish separately the provisions relating to telephone prepayments from those relating to electric prepayments. A final rule for telephone prepayments and a proposed rule covering electric prepayments were sent forward for approval.

January 1990

On January 11, 1990, the final rule covering telephone prepayments and the proposed rule covering electric prepayments were published in the Federal Register.

February 1990

The telephone regulation became effective on February 12, 1990, and the comment period on the proposed electric rule closed on the same date.

March 1990

The application period for telephone prepayments closed on March 12, 1990, and the review of these applications began.

April 1990

The $150 million of telephone prepayment authority is being allocated among the applicants. The final rule for the $350 million in electric prepayment authority is being drafted.

QUESTION SUBMITTED BY SENATOR GRASSLEY

RURAL ELECTRIC ADMINISTRATION

Question: I have gotten a number of letters from Rural Electric Associations in my state critical of the President's FY 1991 Budget proposal for the REA. Please elaborate on how REA intends to maintain its current level of service and what the benefits of these changes will be?

Answer: The 1991 budget proposal for the electric loan program totals $1.3 billion. In fiscal year 1989, actual obligations for insured electric loans were $622 million. The proposed funding for 1991 should meet the capital needs of REA borrowers. The Budget provides adequate funding through loan guarantees to borrowers who are financially capable of securing a private-sector loan. In addition, the Budget requests $200 million in direct loans at 5 percent interest for borrowers who cannot obtain funds from the private sector due to their current financial situation. We believe that this proposal will maintain the current level of service.

The benefits gained in shifting financially healthy borrowers from direct lending to private-sector guarantees are:

a. Loans and loan advances will be made by private financial institutions instead of the Federal Government.

b. A guaranteed loan program does not require Federal outlays. The Government has a contingent liability equal to the percent of guarantee in the event of default and will only be required to provide expenditures in case of borrower non-payment.

c. The shift from direct Government lending to private-sector lending assists in meeting Gramm-Rudman-Hollings deficit targets.

d. The amount of subsidy provided when funds are loaned below Treasury's borrowing cost will be reduced.

SUBCOMMITTEE RECESS

Senator **Burdick**. This concludes today's hearing. Our next hearing will be held Wednesday April 4 in the same room at 10 a.m. The subcommittee will receive testimony from the Agricultural Stabilization and Conservation Service, the Foreign Agricultural Service, the General Sales Manager, and the Soil Conservation Service.

The subcommittee stands in recess.

[Whereupon, at 11:40 a.m., Friday, March 30, the subcommittee was recessed, to reconvene at 10 a.m., Wednesday, April 4.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1991

WEDNESDAY, APRIL 4, 1990

U.S. Senate,
Subcommittee of the Committee on Appropriations,
Washington, DC.

The subcommittee met at 10 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Quentin N. Burdick (chairman) presiding.

Present: Senators Burdick, Bumpers, Fowler, Cochran, McClure, Kasten, and Grassley.

DEPARTMENT OF AGRICULTURE

STATEMENT OF RICHARD T. CROWDER, UNDER SECRETARY, INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS

ACCOMPANIED BY ROBERT E. SHERMAN, BUDGET OFFICER

Agricultural Stabilization and Conservation Service

STATEMENT OF KEITH D. BJERKE, ADMINISTRATOR

Foreign Agricultural Service

STATEMENT OF R.E. ANDERSON, JR., ADMINISTRATOR

Office of the General Sales Manager

STATEMENT OF F. PAUL DICKERSON, GENERAL SALES MANAGER

Soil Conservation Service

STATEMENT OF WILSON SCALING, CHIEF

ACCOMPANIED BY DR. ROY M. GRAY, SPECIAL ASSISTANT TO THE CHIEF FOR STRATEGIC PLANNING AND BUDGET ANALYSIS

INTRODUCTION OF WITNESSES

Senator **Burdick**. Good morning, ladies and gentlemen.

Today we conclude our hearings on the fiscal year 1991 budget for Agriculture, Rural Development, and Related Agencies. We will review the budget for the Agricultural Stabilization and Conservation Service, the Foreign Agricultural Service, the General Sales Manager, and the Soil Conservation Service.

Our witnesses are: Richard T. Crowder, Under Secretary, International Affairs and Commodity Programs; Keith D. Bjerke, Administrator, Agricultural Stabilization and Conservation Service; R.E. Anderson, Jr., Administrator, Foreign Agricultural Service; F. Paul Dickerson, General Sales Manager; Wilson Scaling, Chief, Soil Conservation Service; and Robert E. Sherman, Budget Officer of the USDA.

Welcome to you all. Gentlemen, we have statements from each of you which will be made a part of the record in full.

Mr. Crowder, I will ask you to make your oral statement summarizing the budget for each of the agencies, after which we will entertain questions from the subcommittee for each of the agencies.

So now I recognize Mr. Crowder.

STATEMENT OF RICHARD CROWDER

Mr. CROWDER. Thank you, Mr. Chairman. I am pleased to appear before you today to have the opportunity to discuss with you the fiscal year 1991 budget and program proposals for the international affairs, commodity price and income support, and conservation programs of the Department of Agriculture.

As you have noted, I am accompanied today by Keith Bjerke, Administrator of the Agricultural Stabilization and Conservation Service; Bud Anderson, Administrator of the Foreign Agricultural Service; Paul Dickerson, the General Sales Manager; and Wilson Scaling, Chief of the Soil Conservation Service. Statements by each of these administrators providing details on their agencies' budgets and program proposals for fiscal year 1991 have already been submitted to the committee. My statement will summarize the budget proposals, and after that we will be pleased to answer your questions.

BUDGET REQUEST

In the area of farm price and income support programs, the Commodity Credit Corporation spending for commodity price and income supports which peaked at $25.8 billion in fiscal year 1986 declined to $10.5 billion in fiscal year 1989. For fiscal year 1990 we project a further decline in Commodity Credit Corporation spending to about $8 billion.

The President's fiscal year 1991 budget projects spending under these programs to increase to $10.2 billion, an increase of $2 billion over the 1990 level. This level of spending is based on three assumptions:

First, more normal crop production in 1990 and 1991;

Second, target prices which are frozen at the 1990 levels; and

Third, legislated program savings of $1.5 billion.

We have not proposed specific changes for achieving the budget savings. Chapter 5 of the President's budget summarizes some of the approaches that could be considered. Target prices and/or payment bases could be reduced, or payment limits could be tightened. All of these can affect deficiency payments.

We prefer to work with Congress in determining the most propitious way to achieve the necessary budget objectives within a sound policy framework.

Our top priority for price and income support programs is to reduce the rigidity of present programs. We have learned that it can be very costly to base long-range program design upon assumptions which later fail to materialize. Our present supply situation is such that we must meet any major shift in world demand out of current production rather than out of accumulated surpluses.

We feel, therefore, farmers need the flexibility to respond to rapidly changing market conditions. Our 1990 farm bill proposal includes the concept of a normal crop acreage for program crops. We would guarantee deficiency payments on permitted acres, regardless of which program crop is grown. This means producers will choose among crops based on market prices, not target prices.

The CCC funding situation has generally improved in recent years. However, we are again proposing a current indefinite appropriation for reimbursement of CCC's realized losses directly from the Treasury to ensure that we are able to continue payments to farm programs without any disruptions as have occurred in the past.

Finally, we are requesting $630 million for ASCS salaries and expenses for 1991. This is a small increase above this year's level to meet higher salary and operating costs for the agency.

CONSERVATION PROGRAMS

The President's budget for fiscal year 1991 proposes a number of new initiatives to protect the Nation's soil, water, and related resources and is one of the strongest conservation budgets proposed in recent years. It supports continued implementation of the conservation provisions of the 1985 Food Security Act, under which historic levels of soil savings are being achieved. It permits us to move forward with an expanded level of assistance for improved water quality. Funding for traditional conservation programs remains in place to restore and protect basic land and water resources.

Last year the administration proposed, and Congress endorsed, a major program to address agricultural-related water quality problems. The fiscal year 1991 budget requests $207 million, a 33-percent increase, for the overall water quality initiative, which includes research, education and technical assistance, data collection and analysis, and financial assistance. Soil Conservation Service has a major responsibility in designing and implementing this program.

The budget request for the Soil Conservation Service activities directly related to the initiative is $44.1 million, a two-thirds increase from 1990. The fiscal year 1991 budget request for Soil Conservation Service is $725.4 million, which is about the same as we had in 1990.

Enrollment in the Conservation Reserve Program has now reached 34 million acres, yielding annual soil erosion savings equivalent to about one-fifth of the total soil erosion of the Nation's cropland. The budget includes a program level which will be sufficient to achieve a 40-million-acre reserve by the end of the 1990 crop-year.

We are requesting funding for the Agricultural Conservation Program for the first time in many years. This funding will support ACP activities to restore and protect basic land and water resources as well as to fund water quality projects and support the Department's water quality initiative begun last year.

Funding is also requested for the Colorado River Basin Salinity Control Program, which also contributes to the Department's water quality initiative.

The Water Bank Program is funded to contribute to the administration's initiative to improve and protect wetland areas.

The budget proposes to continue funding of the Forestry Incentives Program at this year's level. This program complements the administration's America the Beautiful initiative proposed in the 1991 budget of the Forest Service.

In international programs, the 1990 farm bill and current trade negotiations in the Uruguay Round have been considered in developing our fiscal year 1991 budget proposals for the Department's international programs and activities.

This budget provides for those export programs which we have recommended to be extended in the 1990 farm bill. It supports those programs which are designed to challenge unfair trade practices and encourage our trading partners to negotiate seriously on reform of the world agricultural trade practices, and it is fiscally prudent.

A total program level of $8.2 billion is provided for the Department's international programs and agencies for 1991, an increase of $276 million above this year's level. During 1991 we will continue to make available short- and intermediate-term credit guarantees at their present levels.

While some interest has been expressed in favor of increasing the program levels for GSM–102 guarantees, we believe the current $5 billion level provides a proper balance between achieving our export promotion objectives and maintaining the fiscal integrity of the Commodity Credit Corporation. We are proposing a program level of $0.5 billion for GSM–103 guarantees, the same level as we have this year.

In our 1990 farm bill proposals, we had proposed that the Export Enhancement Program be extended, and our 1991 budget assumptions reflect this. The program has proved to be an effective means for challenging the unfair trade practices of competitor countries, and it plays a critical role in our strategy for achieving agreement for agricultural trade reform in the Uruguay Round.

With the multilateral trade negotiations in their concluding and most critical year, we strongly urge the Congress to impose no limitations on the value of EEP bonuses that can be awarded during fiscal year 1991. For the program to be effective and to ensure maximum leverage to our negotiating position, we need the flexibility to adjust the level of program activity in response to changing market conditions and the subsidizing practices of competitor countries.

For Public Law 480, food assistance, we are recommending a program level of just under $1.5 billion. While this level of funding is somewhat reduced from this year, we estimate it will provide for total commodity shipments of approximately 6.4 million metric tons. This would be an increase of 500,000 metric tons above the level projected for this year.

The fiscal year 1991 budget requests a modest funding increase for FAS to meet higher operating costs projected for the agency's overseas offices. The agency's counselor, attaché, and agricultural trade offices are vital to FAS' foreign reporting, representation, and market development activities and should be maintained at their present level.

Funding for FAS market development activities, including the cooperator program, is proposed to continue at this year's level. The budget also provides for continuation of the targeted export assistance activities at the 1990 level.

For the General Sales Manager's Office, additional funding is requested to provide for a modest expansion in staffing to improve the administration and oversight of the Department's commercial export programs. As the committee is aware, the export programs administered by this office have undergone dramatic growth since enactment of the Food Security Act of 1985, and current staffing levels have proven inadequate.

For the Office of International Cooperation and Development, the budget proposes increased funding for the agency's scientific and technical cooperation activities. This program, which supports short-term exchange visits of scientists and others between the United States and foreign countries, will expand its activities in conjunction with the Soviet Union, Eastern Europe, and Ireland.

Most other OICD activities, including its reimbursable activities funded from other agencies, will continue near current levels. However, no further funding is requested for the Foreign Currency Research Program or the Middle Income Country Training Program.

Mr. Chairman, this concludes my introductory remarks, and we would be pleased to answer any questions that you may have at this time.

PREPARED STATEMENTS

Senator **Burdick**. Does any other member of the panel have an opening statement?

Mr. **Crowder**. We will submit those for the record and pass on the opening statements.

[The statements follow:]

Statement of Richard T. Crowder

Mr. Chairman, Members of the Committee, I am pleased to appear before you today and to have the opportunity to discuss with you the fiscal 1991 budget and program proposals for the international affairs, commodity price and income support, and conservation programs of the Department of Agriculture. I am accompanied today by Keith Bjerke, Administrator of the Agricultural Stabilization and Conservation Service (ASCS); Bud Anderson, Administrator of the Foreign Agricultural Service (FAS); Paul Dickerson, the General Sales Manager; and Wilson Scaling, Chief of the Soil Conservation Service (SCS).

Statements by each of these Administrators, providing details on their agencies' budgets and program proposals for fiscal 1991, have already been submitted to the Committee. My statement will summarize the budget proposals. After that, we will be pleased to answer your questions.

FARM PRICE AND INCOME SUPPORT PROGRAMS

Commodity Credit Corporation (CCC) spending for commodity price and income supports, which peaked at $25.8 billion in fiscal year 1986, declined to $10.5 billion in fiscal year 1989. For fiscal year 1990, we project a further decline in CCC spending to $8.2 billion. The President's fiscal year 1991 budget projects spending under these programs to increase to $10.2 billion, an increase of $2.0 billion over the 1990 level. This level of spending is based on the three assumptions: more normal crop production in 1990 and 1991, target prices which are frozen at the 1990 level, and legislated program savings of $1.5 billion.

We have not proposed specific changes for achieving budget savings, but Chapter V of the President's budget summarizes some of the approaches that could be considered. Target prices and/or payment bases could be reduced, or payment limits could be tightened. All of these can affect deficiency payments. We prefer to work with the Congress in determining the most propitious way to achieve the necessary budget objectives within a sound policy framework.

Our top priority for price and income support programs is to reduce the rigidity of present programs. We have learned that it can be very costly to base long-range program design upon assumptions which later fail to materialize. Our present supply situation is such that we must meet any major shift in world demand out of current production rather than out of accumulated surpluses.

Therefore, farmers need the flexibility to respond to rapidly changing market conditions. Our 1990 Farm Bill proposal includes the concept of normal crop acreage for program crops. We would guarantee deficiency payments on permitted acres, regardless of which program crop is grown. This means producers will choose among crops based on market prices, not target prices.

The CCC funding situation has generally improved in recent years. However, we are again proposing a current, indefinite appropriation for reimbursement of CCC's realized losses directly from the Treasury to ensure we are able to continue payments for farm programs without any disruptions as have occurred in the past.

Finally, we are requesting $630 million for ASCS salaries and expenses for 1991, a small increase above this year's level, to meet higher salary and operating costs for the agency.

CONSERVATION PROGRAMS

The President's Budget for fiscal 1991 proposes a number of new initiatives to protect the Nation's soil, water, and related resources and is one of the strongest conservation budgets proposed in recent years. It supports continued implementation of the conservation provisions of the 1985 Food Security Act (FSA) under which historic levels of soil savings are being achieved. It permits us to move forward with an expanded level of assistance for the improvement of water quality. Funding for traditional conservation programs remains in place to restore and protect basic land and water resources.

Last year the Administration proposed and Congress endorsed a major program to address agricultural related water quality problems. The fiscal 1991 budget requests $207 million, a 33 percent increase, for the overall water quality initiative which includes research; education and technical assistance; data collection and analysis; and financial assistance. SCS has a major responsibility in designing and implementing this program. The budget request for SCS activities directly related to the initiative is $44.1 million, a 66 percent increase from 1990.

The fiscal 1991 budget request for SCS in total is $725.4 million which is about the same as the 1990 level.

Enrollment in the Conservation Reserve Program has reached 34 million acres yielding annual soil erosion savings equivalent to about one-fifth of the total soil erosion on the Nation's cropland. The budget includes a program level which will be sufficient to achieve a 40 million acre reserve by the end of the 1990 crop year.

We are requesting funds for the Agricultural Conservation Program for the first time in many years. This will support traditional ACP activities to restore and protect basic land and water resources, as well as to fund water quality projects in support of the Department's water quality initiative begun last year. Funding is also requested for the Colorado River Basin Salinity Control Program which also contributes to the Department's water quality initiative. The Water Bank Program is funded to contribute to Administration initiatives to improve and protect wetland areas.

The budget proposes to continue funding for the Forestry Incentives Program at this year's level. This program complements the Administration's America the Beautiful initiative proposed in the 1991 budget of the Forest Service.

INTERNATIONAL PROGRAMS

The 1990 Farm Bill and the current trade negotiations in the Uruguay Round have been considered in developing our fiscal 1991 budget proposals for the Department's international programs and activities. The budget provides for those export programs which we have recommended be extended in the 1990 Farm Bill; it supports those programs which are designed to challenge unfair trading practices and encourage our trading partners to negotiate seriously on reform of world agricultural trading practices; and it is fiscally prudent.

A total program level of $8.2 billion is provided for the Department's international programs and agencies for 1991, an increase of $276 million above this year's level. During 1991, we will continue to make available both short- and intermediate-term credit guarantees at their present levels. While some interest has been expressed in favor of increasing the program level for GSM-102 credit guarantees, we believe the current $5.0 billion level provides a proper balance between achieving our export promotion objectives and maintaining the fiscal integrity of the Commodity Credit Corporation. We are proposing a program level of $0.5 billion, as well, for GSM-103 guarantees, the same level we have this year.

In our 1990 Farm Bill proposals, we have proposed that the Export Enhancement Program (EEP) be extended, and our 1991 budget assumptions reflect this. The program has proven to be an effective means for challenging the unfair trading practices of competitor countries, and it plays a critical role in our strategy for achieving agreement on agricultural trade reform in the Uruguay Round. With the multilateral trade negotiations in their concluding, most critical year, we strongly urge that Congress impose no limitation on the value of EEP bonuses that can be awarded during fiscal 1991. For the program to be effective and to ensure maximum leverage to our negotiating position, we need the flexibility to adjust the level of program activity in response to changing market conditions and the subsidizing practices of competitor countries.

For P.L. 480 food assistance, we are recommending a program level of just under $1.5 billion. While this level of funding is somewhat reduced from this year, we estimate it will provide for total commodity shipments of approximately 6.4 million metric tons. This would be an increase of 500,000 metric tons above the level projected for this year.

The fiscal 1991 budget requests a modest funding increase for FAS to meet higher operating costs projected for the agency's overseas offices. The agency's counselor, attache, and Agricultural Trade Offices are vital to carry out FAS's foreign reporting, representation, and market development activities, and should be maintained at their present levels. Funding for FAS market development activities, including the cooperator program, is proposed to continue at this year's level. The budget also provides a continuation of Targeted Export Assistance activities at the 1990 level.

For the General Sales Manager's Office, additional funding is requested to provide for a modest expansion in staffing to improve the administration and oversight of the Department's commercial export programs. As the Committee is aware, the export programs administered by this office have undergone dramatic growth since enactment of the Food Security Act of 1985, and current staffing levels have proven inadequate.

For the Office of International Cooperation and Development (OICD), the budget proposes increased funding for the agency's Scientific and Technical Cooperation activities. This program, which supports short-term exchange visits of scientists and others between the United States and foreign countries, will expand its activities in conjunction with the Soviet Union, Eastern Europe, and Ireland. Most other OICD activities, including its reimbursable activities funded by other agencies, will continue near current levels. However, no further funding is requested for the Foreign Currency Research Program or the Middle-Income Country Training Program.

This concludes my introductory remarks, Mr. Chairman. We would be pleased to answer any questions you may have.

STATEMENT OF KEITH D. BJERKE

Mr. Chairman and Members of the Subcommittee, I appreciate this opportunity to present the fiscal year 1991 budget request for the Agricultural Stabilization and Conservation Service. This is my first appearance before the Subcommittee and I am pleased to be here today. I would like first to discuss our proposals for the conservation programs, then highlight the Commodity Credit Corporation request, and conclude with a discussion of the Salaries and Expenses account.

CONSERVATION PROGRAMS

Agricultural Conservation Program.—Mr. Chairman, I am pleased to be able to testify that, for the first time in many years, our ACP budget proposal requests funding for this program at recent levels. This request reflects the priority given to this program by both Secretary Yeutter and myself since the 1991 budget process began last spring. The requested $176 million will provide funding for traditional ACP activities including $129.2 million for annual conservation practices, $20 million for long-term agreements, $2 million for the variable cost-share level project, and $1.8 million for Forest Service technical assistance. The request will also provide $23 million in 1991 to support the Department's ongoing water quality initiative begun in 1990 and includes $1.8 million for 16 USDA national demonstration projects, $7.1 million for an additional 37 USDA nonpoint source hydrologic units, and $14.1 million for ACP special water quality projects. At the requested level, the ACP will assist in applying conservation practices on approximately 7.3 million acres, saving 37.9 million tons of soil and 466,000 acre-feet of water.

Conservation Reserve.—Nine signups for the Conservation Reserve Program have enrolled a total of approximately 33.9 million acres to date. Our 1991 budget proposes an appropriation sufficient to fund an additional 6.1 million acres to achieve a 40 million acre conservation reserve by the end of the 1990 crop year, as required by the Food Security Act of 1985.

Our fiscal year 1991 appropriation request of $1.878 billion, together with an estimated fiscal year 1990 carryover balance of approximately $395 million, would provide $2.062 billion for rental payments, including first-time payments on 1990 crop contracts, and $192 million to share the cost of establishing vegetative cover. However, as you know, Mr. Chairman, the tenth signup is now on hold, pending Congressional consideration of the Secretary's recommendations for the CRP that are included in the Department's 1990 farm bill proposals. These proposals still call for a 40 million acre reserve, as does the January Budget, but would redirect the objectives for the remaining 6 million acres towards wetlands, water quality, and tree planting in environmentally sensitive areas. We anticipate that Congress and the Administration will come to an agreement within the next few months to incorporate these proposals in a new farm bill.

In fiscal year 1990, rental payments on crop-year 1986 through 1989 acres totaled $1.456 billion and were made in late October, 1989. Cost-sharing for the continued establishment of vegetative cover is estimated at $302 million.

Colorado River Basin Salinity Control Program.—The requested $14.8 million for the Salinity Program—an increase of $4.4 million over the fiscal year 1990 appropriation—will continue to move the program closer to the original implementation schedule and will further support the Administration's water quality initiative. The 1991 budget request will provide $13.4 million for six ongoing projects located in Colorado, Nevada, Utah, and Wyoming; $1.3 million for preimplementation activities for two new projects; and $0.1 million for planning studies. This funding level will enable participants to apply over 300 miles of irrigation pipelines and ditch linings and install improved irrigation systems on 33,600 acres.

Water Bank Program.—For fiscal year 1991, we are proposing $12.8 million to carry out a dual Water Bank Program under proposed legislation to permit participants to choose between entering into traditional 10-year agreements or selling permanent conservation easements on their wetlands and adjacent land. This dual program will enable the Department to assess the costs and producer acceptance of permanent easements. The Budget proposes $10.5 million for 10-year agreements under current law and $2.3 million for easements under proposed legislation. However, the actual funding distribution would be determined by landowner participation, since participants will be able to choose either option within the total funding level.

Forestry Incentives Program.—The 1991 request of $12.4 million for the Forestry Incentives Program is the same as the amount provided in fiscal year 1990. Funding at this level will provide cost-sharing for tree planting on 159,300 acres and timber stand improvement on 33,650 acres.

Other Programs.—No fiscal year 1991 funding is requested for the Emergency Conservation Program. Future emergency needs for farmland rehabilitation cannot be predicted and will be addressed as the need arises. For the Dairy Indemnity Program, we anticipate that carryover funds will be sufficient to cover a normal year's claims in 1991, and no new funding is therefore requested.

COMMODITY CREDIT CORPORATION

COMMODITY PROGRAM OUTLAYS

Net CCC outlays for price support and related activities in fiscal year 1989 totaled $10.5 billion, mostly for the 1988-crop programs. Total CCC net outlays in fiscal year 1990 are projected at $8.2 billion, down $2.3 billion from fiscal year 1989. This decrease is mostly due to lower 1989 crop disaster and livestock assistance payments in fiscal year 1990, which decreased about $2.8 billion from the 1988 crop disaster payments made in fiscal year 1989.

The outlay estimates for fiscal year 1990 also incorporate reductions of over $400 million due to provisions of the Omnibus Budget Reconciliation Act of 1989. The Act reduced projected CCC outlays primarily through a combination of lower 1990 crop deficiency payments and increased flexibility in the use of base acreage. Also as a result of the Reconciliation Act, the President issued a 1990 Gramm-Rudman-Hollings deficit reduction sequester order requiring a 1.4 percent sequester, implementation of which is expected to result in CCC outlay savings of $156.0 million. Reductions of 1.4 percent will be made to cash payments to producers, cooperatives, and associations for 1990 crop commodity loans, deficiency and loan deficiency payments for 1990 crops, and to any 1990 crop commodity certificates that producers redeem for cash. To comply with the 1.4 percent reduction, CCC also implemented an assessment of 6.3 cents per hundredweight on all milk marketed for commercial use during the month of January 1990 only.

For fiscal year 1991, net outlays are projected at $11.7 billion, an increase of $3.5 billion from the fiscal year 1990 projected level. These fiscal year 1991 outlays are based largely on 1990 crop provisions of the Food Security Act, and, on the assumption that 1991-crop target prices will be at 1990-crop levels. The increase in outlays in fiscal year 1991 is due to a combination of higher estimated production levels assuming more normal weather, and the "frozen" target prices. These factors result in higher 1990-crop final deficiency payments and higher 1991-crop advance deficiency payments in fiscal year 1991.

In order to help reduce the Federal deficit, the budget proposes a reduction in fiscal year 1991 outlays of $1.5 billion from the $11.7 billion current law baseline estimate. Program changes to achieve this reduction will be developed through the legislative process.

CCC FINANCING

The President's Budget again proposes a current, indefinite appropriation for reimbursement of CCC's realized losses with no cap, to ensure maximum flexibility for CCC financing of farm programs directly from Treasury. Although we do not currently foresee any borrowing authority availability problems occurring in fiscal year 1991, the new farm bill could create a situation where this flexibility would be needed. Our estimate of the funds that would be drawn to restore CCC realized losses under the proposed authority in fiscal year 1991 is $6.1 billion.

1990 FARM BILL

Secretary Yeutter recently presented the Administration's 1990 farm bill proposals. These proposals are designed to continue U.S. agriculture's increasing market orientation, to improve our international competitiveness and to address environmental concerns. One goal of the proposed farm bill is to have the flexibility necessary to adjust to the international marketplace. This would be accomplished through the concept of Normal Crop Acreage (NCA), which would encourage farmers to plant crops based on market signals without the loss of farm program benefits. New policy changes include grain reserve and stocks policy, multi-year set asides and a disaster assistance program to replace the current federal crop insurance program and ad hoc CCC disaster assistance. In addition, implementation of annual acreage reserves and loan rates would be changed to enhance program effectiveness.

In the Department's proposed farm bill, target price levels are not outlined. Instead, it is proposed that specific target price levels be worked out with the Congress. The budget, as mentioned earlier, assumes 1991 target prices are frozen at the 1990-crop levels.

ASCS FARM PROGRAM ADMINISTRATION

I want to note first, Mr. Chairman, that we greatly appreciate this Committee's support in providing the necessary administrative funding in last year's 1989 Supplemental Appropriation Act to carry out legislated disaster assistance activities. These supplemental funds allowed us to complete the large 1988 crop disaster workload and begin servicing producers for the 1989 crop disaster program. Secondly, I would like to emphasize that our 1991 administrative funding proposals are based on assumed continuation of current law, and the estimates I will outline could change substantially depending upon the final provisions of the new Farm Bill.

Our CCC transfer authority request for fiscal year 1991 of $630.4 million anticipates a reduction of 2,400 county office staff-years from the estimated fiscal year 1990 level of 17,600. This decrease, largely affecting temporary employees, would bring total county office staff-years for fiscal year 1991 to 15,200. The projected reduction primarily reflects the completion of workload associated with the Disaster Assistance Act of 1989 and no Conservation Reserve Program signups in fiscal year 1991. Again, however, final Congressional action on the Administration's farm bill proposals, which were transmitted after the 1991 Budget, could significantly affect ASCS workload, particularly any disaster and conservation reserve provisions.

Despite the projected staffing decrease, our 1991 transfer authority request is $6.7 million higher than the 1990 authorization, after adjusting for an $8.9 million Gramm-Rudman-Hollings reduction. This is due mainly to annualization of the fiscal year 1990 pay raise, an anticipated pay raise of 3.5 percent in fiscal year 1991, increased operating costs such as rent and utilities, and higher average staff-year costs since we project fewer temporary employees in 1991.

Mr. Chairman, this concludes my prepared remarks. I will be happy to answer any questions you may have.

STATEMENT OF R.E. ANDERSON, JR.

Mr. Chairman, members of the Subcommittee, I appreciate the opportunity to meet with you to discuss the work of the Foreign Agricultural Service (FAS) and to present the budget request for fiscal year 1991. Today, I plan to focus my remarks on the role of the Foreign Agricultural Service in improving U.S. export opportunities through multilateral and bilateral trade negotiations, market development, and market information. The General Sales Manager, who is also here today, will cover the credit guarantee, food aid, and export assistance programs.

BUDGET REQUEST

Our fiscal year 1991 budget proposes a funding level of $103.5 million, a net increase of $2.2 million above the fiscal year 1990 level. This includes $1.6 million to help offset higher overseas operating costs resulting from anticipated wage and price increases, and $0.6 million which represents 50 percent of the 1991 pay raise. The remaining 50 percent of the 1991 pay raise is being absorbed. The fiscal year 1991 budget proposes no further funding for Agricultural Trade and Development Missions as the statutory requirement for missions to 16 countries will have been satisfied by the end of fiscal year 1990.

TRADE OUTLOOK

Some of these changes are already having an impact on U.S. agricultural exports. For example, trade data for the first quarter of fiscal year 1990 show our agricultural exports up 3 percent over the same period a year earlier. This is a much more positive trade showing than USDA economists anticipated when they made their first forecast for fiscal year 1990 last fall. At that time, the outlook was for some slippage in our agricultural exports due to lower prices and stronger competition. However, import demand—especially by the Soviet Union—has been strong. In fact, Soviet purchases of U.S. feed grains thus far during the 1989/90 agreement year are running 17 percent ahead of the same period in the preceding agreement year. We are also seeing strong sales to Mexico, South Korea and China. So I believe we can be fairly positive about the outlook for U.S. farm sales this season.

TRADE ISSUES

Beyond this year, the outlook for our agricultural exports is going to hinge greatly on the outcome of the Uruguay Round of Multilateral Trade Negotiations, now in its final year.

The United States has a population of about 250 million people. In the next 10 years the world is going to add to its population the equivalent of four United States of America. The U.S. agricultural production plant will inevitably shrink and farm incomes will ultimately fall if our farmers don't have a fair chance of selling to this vast new market. And that's the essence of the U.S. goal for the Uruguay Round: We want a world trading environment that will open up markets and give us a chance to go out and compete for them.

We have proposed to accomplish this goal through four basic steps:

The conversion to tariffs of non-tariff measures and the substantial, progressive reduction of all tariffs affecting agricultural, forestry, and fishery products—with an ultimate goal of zero or very low tariffs.

A GATT ban on export subsidies for all agricultural products, which would mean they would get the same treatment as industrial products.

A reform in the way countries support farmers so as to eliminate support tied directly to production and/or prices. And, finally,

The harmonization of standards involving food safety and animal and plant health and the setting of these standards on the basis of scientific evidence.

While the Uruguay Round is on track insofar as all countries met the December 1989 deadline for submitting negotiating proposals, we still face an enormous challenge in coming up with a final agreement by December 1990 that will allow international markets to function fairly and provide opportunity for farmers and security for consumers.

It is no news that the European Community (EC) and the United States remain wide apart on what needs to be done to reduce the distortion in world agricultural production and marketing. The European Community's proposal to the GATT, submitted just before the deadline in late December, reflects a continued reliance on managed agriculture and on large-scale subsidies, especially export subsidies. In essence, what the EC proposal is telling the world is: If you want to negotiate world market shares with us around a table, we'd be interested. But if you want to compete with us in a world marketplace without trade barriers and subsidies, no thanks.

FAS' role in the Uruguay Round negotiations is to provide the Secretary of Agriculture and the U.S. Trade Representative with the policy and statistical analyses necessary to evaluate the proposals now before the GATT and to assist our negotiators in every way possible to bring the Uruguay Round to a successful conclusion. FAS also has the responsibility for making the necessary linkages with the private sector to gain their insights and input into the Uruguay Round process. Because of the pivotal role of this multilateral trade work, FAS has realigned the resources in its trade policy area to focus on these activities.

In addition to the multilateral negotiations, FAS policy experts and counselors overseas continue to work on a bilateral basis with our key trading partners to reduce the barriers to U.S. agricultural exports and to encourage expanded trade.

JAPAN

A number of trade policy successes in our negotiations with Japan, our No. 1 agricultural market overseas, have led to improved market access for U.S. products. The Beef and Citrus Agreement of 1988 is securing a gradual phaseout of beef and citrus import quotas. The phaseout will be completed for beef in 1991 and for citrus in 1992. The gains have been immediate. Shipments of U.S. beef have more than doubled, reaching a value of $1 billion in fiscal 1989. Sales of single-strength and frozen concentrated orange juice have multiplied several times over, reaching $20 million.

The Beef and Citrus Agreement also stimulated reform of Japanese administration of beef imports, which should continue to help improve import demand.

The concessions obtained in a 1988 GATT agreement with Japan also have led to major gains for 11 categories of processed food products. In fiscal 1989, exports of U.S. ice cream, processed cheese, assorted fruit and tomato juices, dry beans, and canned pineapple increased by over $34 million, representing a 61-percent increase in value from fiscal 1988.

EUROPEAN COMMUNITY

One significant trade policy victory vis-a-vis the European Community in recent months was the adoption of the GATT panel report which determined that the EC's subsidy system for oilseeds discriminates against foreign suppliers. The panel report supported charges by the United States that the EC's oilseed-subsidies impaired a 1962 agreement allowing U.S. soybeans to enter the EC duty-free. The panel also ruled that the EC should amend its oilseed regulations to conform with GATT rules, and should pursue solutions to alleviate the damage incurred by the United States. FAS representatives to the GATT in Geneva will be pressing the EC to specify a schedule for implementing the panel's findings.

The United States also continues to press the EC for the elimination of the Portuguese and Spanish soybean oil consumption quotas.

In another development in the past year, the United States successfully prevented the EC's adoption of a new processing subsidy for increased use of grain in compound feeds. This measure would have favored increased use of EC grains to the detriment of imported compound feed ingredients, including oilseeds and corn gluten feed. The United States exported over $3 billion of these products to Europe last year.

The U.S.-EC Enlargement Agreement, which has helped U.S. exporters maintain feed grain sales to Spain and Portugal, will terminate at the end of this year. In July, the current agreement comes up for review. The purpose of this review is to determine whether U.S. trade with Spain and Portugal has developed favorably since EC enlargement. Under the terms of the original agreement, the United States can re-open this issue if the review reveals new actions are necessary to ensure that the United States receives adequate compensation.

With regard to the hormone issue, we still have significant problems although some trade has resumed. As a result of the Interim Measure, we have removed the 100 percent tariff on uncooked hams valued at $300,000 and canned tomato sauce valued at $4.2 million from the retaliation list. Currently, we are working to add dairy meat and offals to the Interim Measure which would allow us to reduce the retaliation list further. However, the EC shows no willingness to remove the hormone ban, and we currently see no viable option for restoring the remainder of the estimated $60 million in trade lost to the U.S. industry.

THE ASIAN NICS

The newly industrialized countries (NICs) of Asia—Korea, Taiwan, Singapore, and Hong Kong—have the potential to eclipse the EC as a regional market in not too many years. Whether they reach their potential, however, is going to depend heavily on how successful we are in reducing trade barriers in Korea and Taiwan.

The May 1989 agricultural agreement with Korea committed that country to open its market to 62 products of interest to the United States by January 1, 1991. In addition, Korea agreed to reduce tariffs on almonds, raisins, cherries, pistachios, alfalfa, avocados, and particleboard; to increase the orange juice quota from 9,000 tons to 15,000 tons; to remove the orange juice blending requirement; to remove phytosanitary barriers for cherries and papayas; and to provide more information concerning import restrictions under its so-called "special laws."

As many of you may know from constituent complaints, we have encountered some problems with the implementation of this agreement. It has taken great effort on the part of our agricultural staff in Seoul, as well as on the part of U.S. trade representatives here in Washington, to see that the Koreans adhere to their commitments in the agricultural area.

The United States also has won a case in the GATT regarding Korea's beef import restrictions. On March 21, we initialed an ad ref agreement which should settle this dispute and lead to a termination of the section 301 investigation on Korean beef import restrictions. Under the agreement, Korea reaffirmed its commitment under the GATT Balance of Payments report to eliminate beef import restrictions or otherwise bring them into conformity with GATT by July 1997; provided base quota levels of 58,000 MT in 1990, 62,000 MT in 1991, and 66,000 MT in 1992 (the 1989 quota was 50,000 MT); and agreed to establish a simultaneous buy/sell system to allow exporters direct access to an expanding segment of the market.

We also continue to face a number of critical trade issues in Taiwan. As a result of continuing pressure from the United States in recent years, Taiwan has a trade action plan aimed at reducing its trade deficit with the United States. However, progress in the agricultural area has been very slow.

Another emerging issue—which threatens to disrupt sales of apples to Taiwan, our largest overseas apple market—involves a possible requirement to treat U.S. apples for coddling moths. Such a requirement would make U.S. apple sales to Taiwan uneconomical. U.S. apple sales to Taiwan totaled nearly $24 million in fiscal year 1989. Our agricultural representatives in Taipei are watching developments on this issue very closely.

CANADA

Turning our attention to our neighbor to the north, Canada is our third largest agricultural trading partner. The U.S.-Canada Free Trade Agreement (FTA) has been in effect for more than a year now. It is one of the more comprehensive trade agreements ever negotiated between two nations, and provides a forum for further trade liberalization in both tariff and technical areas. For example, an annual negotiation has produced provisional agreement to accelerate the elimination of tariffs on 27 agricultural items. There are a number of additional issues, not all related to the FTA, which we continue to pursue, including Canadian dairy and hatching egg quotas.

SOVIET UNION

The United States and the Soviet Union have agreed on a grains agreement. Key points include minimum annual shipments of grain to the USSR being raised from 9 to 10 million metric tons. The agreement calls for annual purchases of at least 4 MMT of wheat and 4 MMT of feedgrains (including, for the first time, barley and sorghum) with flexibility to substitute in any one year up to 750 TMT of one commodity for the other.

FAS is also very active in USC efforts to prepare and negotiate a commercial trade agreement with the Soviet Union as agreed to at the Malta Summit.

EASTERN EUROPE

In response to the dramatic events in Eastern Europe, FAS is heavily involved in the assistance efforts for Poland and other countries in that region. Our initial effort has focused on an inventory of measures including food aid, development assistance and trade development within the constraint of our existing resources. For example, we are looking at credit guarantees, reimbursable agreements, trade equalization measures, food aid, scientific and technical cooperation, and the work with a variety of organizations government and private—to focus on agricultural trade to our mutual advantage.

Over the long term, Eastern Europe holds much promise as a market for U.S. farmers. If we can help Poland and the other nations in Eastern Europe restructure their economies, recover from their large foreign debts, and stand on their own feet, they will be in a position to enter the market to purchase, as paying customers, what they need. At the beginning of the 1980's, Eastern Europe was a $2-billion a year market for U.S. agriculture.

With respect to Poland, in particular, the United States has: donated $50 million of corn from CCC inventory; approved $20 million in concessional financing for the purchase of vegetable oil, rice and cotton; donated $10 million of pork bellies; and signed a technical assistance agreement to improve Poland's agricultural economy.

We are responding to Poland's needs from both a commercial as well as a food-aid viewpoint.

MARKET DEVELOPMENT

FAS has a major role in keeping agricultural exports healthy. Individual farmers have no practical way to influence foreign buyers, yet are dependent on exports for nearly one out of every three dollars received. The fight for foreign markets continues to be intense among competing nations. The long-term export market development program has been a core activity for the FAS since the agency was created. The Agency works for farmers jointly with over 54 agricultural trade and producer groups, private companies, and state departments of agriculture. The market development program reaches into over 100 countries, helps hold established markets and builds new ones, reduces trade barriers and improves access to markets.

FAS' market development programs have always received strong Congressional support, as illustrated by the substantial increase in promotional resources authorized through the Food Security Act of 1985. To make sure that government resources in the cooperator program continue to be used in the most cost-effective manner, FAS has made program management a major area of review. Emphasis is being placed on increasing marketing plan control over activities, program supervision on the part of Marketing Specialists within FAS, strategic planning, and better financial management of resources. In addition, we have emphasized more frequent reporting and closer communications with cooperators in order to detect emerging problems and develop alternative policy responses to those problems.

With its goal of assisting exports of products affected by foreign unfair trade practices, the Targeted Export Assistance (TEA) program has increased both the scope of market development activities, and the number of organizations we can work with. The effectiveness of the TEA program will be highlighted in the General Sales Manager's testimony.

TRADE SHOW ACTIVITY

One activity in the market development area which I would especially like to highlight for the Committee is the FAS sponsorship of U.S. participation at trade shows. Participation by U.S. firms in our trade fairs program has expanded dramatically over the last three years. In all, FAS sponsored U.S. participation at fifteen major shows in fiscal year 1989. Over 700 U.S. firms were represented at international, U.S. agent, and U.S. solo food shows throughout Europe, the Middle East and the Pacific Rim. Last year at the ANUGA show, which is the world's largest international food show and is held in Cologne, Germany, 220 U.S. firms were represented in the U.S. pavilion. That was more than twice the number of U.S. firms represented atany previous ANUGA show.

FAS is at this moment is actively recruiting U.S. firms for up-coming agricultural trade shows in Australia and France. Shows are being held this spring in Singapore, Hong Kong, Italy, Ireland, and the Netherlands, and we are in the process of evaluating the results from our recent participation at FOODEX 90 which was just held in Tokyo, Japan.

These shows have become avenues for introducing new U.S. firms and food products into key markets for high-value products. Experimental first-time U.S. solo shows in Asia have, for example, facilitated our understanding of what it will take to introduce new products to consumers in Korea and Taiwan. We have found U.S. firms more willing to test their products in these new markets when they know that the U.S. government is lending a hand.

MARKET INFORMATION

The globalization of the market for U.S. agricultural products has put a premium on FAS' task of reporting trade and agricultural conditions in other countries, analyzing these data and interpreting the changes for the use of farmers, business, government, and the general public.

The nucleus of our agricultural information system remains the agricultural counselors and attaches overseas. However, we have supplemented the information gathered by our attaches with a remote sensing capability that assists us in getting data on a timely basis in areas not always easily accessible to our attaches. In the past year, for example, our remote sensing capability allowed us to determine very early in the growing season that Soviet Union's spring wheat crop was under stress. We were then able to factor this information into our forecasts of Soviet grain production and probable import needs.

However, gathering data is only part of FAS' information responsibility. In response to the Omnibus Trade and Competitiveness Act of 1988, we are also focusing more attention on outreach. FAS has established a Trade Assistance and Planning Office, to assist producers and exporters who have been hurt by unfair foreign competition in exploring potential avenues of recourse under U.S. trade laws. In addition, during the past year FAS has also met with a number of exporter groups to evaluate the effectiveness of its export services and information products. The result will be improved services and products geared around the concept of improving the profit potential for U.S. exporters.

With food safety concerns gaining greater prominence around the world, FAS has also established a Food Safety Task Force which works with the appropriate agencies within the U.S. government to gather information as needed on various food issues. The task force's goal is to avoid disruption of U.S. exports to all countries due to health and safety concerns and to avoid conflicts by improving communication and implementing swift, coordinated activity to avoid or minimize losses in the event of a crisis.

TRADE AND DEVELOPMENT MISSIONS PROGRAM

Over the past two decades, the developing world has emerged as a major market for food and agricultural products. Its share of total U.S. agricultural exports during this period increased from less than one-third to more than two-fifths.

To explore how U.S. trade and development programs could be used to meet the food and economic needs of developing countries and to further enhance U.S. agricultural trade prospects, Congress authorized the Agricultural Trade and Development Missions Program in December 1987.

Since its inception, missions to 13 have been completed. The final three missions will take place this year thus completing the Congressional mandate of missions to 16 countries. As required, reports on each mission have been sent to the Congress and plans made to facilitate follow-up on the recommendations made.

AGRICULTURAL COUNSELORS AND ATTACHÉS

In all of the efforts I've discussed, the contributions and support of our agricultural counselors and attachés overseas is invaluable.

Our network of agricultural representatives in 81 U.S. embassies and consulates covering 110 countries around the world has contributed substantially to the success of U.S. export programs and assistance objectives. For example, FAS attachés in Poland and Costa Rica play a pivotal role in assessing the food and agricultural needs of the newly formed Polish and Panamanian Governments. In fact, because of the key role of FAS agricultural representatives in the Polish aid effort, we will be adding one member, on a temporary basis, to the FAS staff in Warsaw.

The Agricultural Trade Offices have greatly strengthened our overseas market development efforts. This network has grown to 15 offices serving Algeria, Bahrain, the People's Republic of China, the Federal Republic of Germany, Iraq, Japan, the Republic of Korea, Nigeria, Saudi Arabia, Singapore, Tunisia, Turkey, the United Kingdom and Venezuela.

This concludes my statement, Mr. Chairman. I will be glad to answer any questions.

STATEMENT OF F. PAUL DICKERSON

Mr. Chairman, members of the Subcommittee, I appreciate the opportunity to discuss the programs of the Office of the General Sales Manager and to present our budget request for fiscal year 1991.

This past year was a good one for U.S. agricultural exports. In fiscal year 1989, U.S. agricultural exports reached $39.7 billion, the highest level since the record $43.8 billion in fiscal year 1981. Agriculture generated a trade surplus of over $18 billion in fiscal year 1989, and we anticipate a similar contribution in 1990.

Based on tight supplies for some commodities and lower grain and oilseed prices, the initial fiscal year 1990 export forecast projects a slight fallback in value and volume, to $38 billion and 145.5 million metric tons respectively. However, exports for the first quarter of fiscal year 1990 were up 3 percent in value and 20 percent in volume over last year's pace so there remains room for optimism.

Mr. Chairman, the American farmer has led the struggle to remain competitive in international markets. Our ability to provide quality products at competitive prices is the key to success in global trading. Access to foreign markets is restricted in some cases and foreign competitors use an array of trade enhancement tools, some of which result in unfair competition.

The Food Security Act of 1985 authorized programs necessary for U.S. agriculture to be competitive in the world marketplace. In the early 1980's, we were rapidly losing ground to our international competitors. Today, we are reasserting our export position through the use of a fully integrated battery of programs.

Market-oriented U.S. farm programs help provide a supply of quality agricultural products at prices that can compete in international markets. Multilateral and bilateral trade negotiations are working to open markets. The credit guarantee programs facilitate export sales that might otherwise not be possible. The Export Enhancement, Targeted Export Assistance, and other programs are offsetting unfair competition. Our direct sales program permits us to sell directly from CCC inventories, and our other food assistance programs serve both humanitarian and market development objectives.

In my role as General Sales Manager, I am privileged to represent U.S. farmers in international agricultural markets. I have continued the tradition of meeting clients face-to-face, which is extremely important in achieving sales of U.S. products in the world marketplace. My door is always open to those interested in boosting U.S. agricultural sales overseas.

I would like to briefly describe how our major export promotion programs have helped U.S. agricultural exports during the past year.

CREDIT GUARANTEE PROGRAMS

The GSM-102 short-term Credit Guarantee Program helps U.S. agricultural exporters by facilitating extension of private commercial credit with repayment periods of up to 3 years. By providing a U.S. Government guarantee on 98 percent of the private financing, this program encourages U.S. lenders (typically commercial banks) to extend credit which is used by overseas customers to pay U.S. exporters. All U.S. agricultural commodities can be considered for programming under the GSM-102 program.

In fiscal year 1989, $4.8 billion in export sales were registered under the GSM-102 program, out of a total of $5 billion in short-term credit guarantees made available.

The GSM-102 credit guarantee program has been an important tool in helping U.S. exporters develop significant market shares in a number of countries. For instance, the GSM-102 program in Mexico has allowed the United States to promote successfully a large variety of agricultural products. Total sales registered exceeded $1.1 billion, of which two-thirds went for oilseeds, feed grains, and nonfat dry milk, with significant volumes of rice, wheat, and dry edible beans.

In Turkey, rapid allocation of GSM-102 credit guarantees facilitated U.S. wheat, rice, and feed grain exports. During fiscal year 1989, Turkey suffered major crop losses, and the country increased its wheat imports dramatically. Credit guarantees provided financing for more than $90 million of Turkey's wheat purchases, and total sales for all commodities exceeded $130 million, a major increase above the previous year's $25 million.

In North Africa the program helped the U.S. forest products industry continue to make inroads in the Algerian solid wood products market, with sales of nearly $29 million, a 45 percent increase over the previous year. And Pakistan not only retained its place as the largest single country vegetable oil importer, using $97 million in guarantees for oil, but also opened its markets to U.S. wheat suppliers for the first time in 4 years, with purchases of $49 million worth of U.S. wheat.

GSM-103 INTERMEDIATE CREDIT PROGRAM

Fiscal year 1989 was the third full year of program operation for the GSM-103 Intermediate Export Credit Guarantee Program.

The GSM-103 program, which provides guarantees on loans with repayment periods from 3 to 10 years, is designed to help developing nations make the transition from concessional to cash sales.

In fiscal year 1989, sales registrations amounted to $425.5 million, a 17 percent increase over fiscal year 1988. Wheat and feed grains were the major commodities covered.

The extended financing terms offered under the GSM-103 program enabled the United States to maintain market presence in Morocco, an important EC wheat market. Over $113 million of wheat exports to Morocco were registered under this program in fiscal year 1989.

Also, U.S. wheat market share expanded in Sri Lanka as a result of a GSM-103 initiative. In fiscal year 1989, an intermediate-credit guarantee program for $35 million for sales of U.S. wheat to Sri Lanka was announced for the first time. Sri Lanka registered over 94 percent of the allocation. The GSM-103 program, along with the Public Law 480 program, increased U.S. sales of wheat and helped alleviate the critical food situation in Sri Lanka brought on by drought, floods, and civil unrest.

Elsewhere, because of poor weather conditions, Jordan increased its purchases of U.S. wheat, rice, and feed grains to over $64 million under the GSM-103 program during fiscal year 1989.

RISK ANALYSIS

In the allocation decision process, foreign risk analyses continue to expand. We evaluated the creditworthiness of more than 42 countries based on current macroeconomic and financial conditions as well as expectations for the next 18 to 24 months. The analyses focused on the potential for debt rescheduling or default that could result in outlays for the CCC.

Increased efforts are underway to draw on the body of information already gathered by international lending agencies to better assess the risk associated with credit guarantees on a country-by-country basis. This should help us to improve our capability to balance market potential with the level of risk associated with developing a specific market.

Sales registrations for both GSM-102 and GSM-103 during fiscal year 1990 will probably reach an all-time high. We will need to continue to allocate effectively all available guarantees to promote trade and maintain the level of risk at an acceptable level. Also, with the dramatic changes taking place in Eastern Europe and greater demand in other countries as well, we may have to consider the implications of these changes on our credit programs and on our staff resources.

PUBLIC LAW 480—FOOD FOR PEACE PROGRAM

For Public Law 480 activities, the General Sales Manager has primary programming responsibility for the Title I concessional sales program and the Agency for International Development (AID) has comparable responsibility for the Title II donations program. Title I operational activities are also the responsibility of the Department, while Title II operational activities are the joint responsibility of USDA and AID.

Over the years, the Public Law 480 program has had an excellent record in supporting the market development, economic, humanitarian, and foreign policy objectives of the United States.

Title I concessional sales have been effective in both economic development and the creation of commercial markets for U.S. farm products. During fiscal year 1989, Title I programs were carried out with 24 countries, with an estimated export market value of $638 million.

Last year, a new Title I program opened a rice market for U.S. exporters in Cote d'Ivoire. The U.S. presence in that market had been extremely limited since 1986 because of import licensing procedures. However, last June, the Government of Cote d'Ivoire signed a $5-million Title I agreement for approximately 18,000 tons of white rice.

We expect that this will encourage Cote d'Ivoire to issue import licenses for commercial purchases of U.S. brown rice in order to rejuvenate its milling industry. The Rice Council anticipates that U.S. sales of brown rice to this market could reach 60,000 tons annually.

The United States shipped wheat, wheat flour, edible vegetable oil, and tallow to El Salvador under a $40-million program in fiscal year 1989. Local currencies generated from the Title I agreement will help improve economic and agricultural growth and support eradication of the screwworm and fruit fly.

Jamaica's $40-million Title I agreement covered wheat, wheat flour, rice, corn, and sorghum—and for the first time under Public Law 480, wood products with a market value of $5 million.

The effect of Tunisia's drought was staved off this year through the combination of Title I and other export assistance. The Title I program and GSM-102 credit guarantees combined to maintain a market for U.S. feed grains against stiff European competition. Moreover, sorghum exported under Section 416 is developing a market for future sales of U.S. sorghum in this market.

During fiscal year 1989, Public Law 480 Title III (Food for Development) agreements were signed with Bangladesh and Bolivia with an export market value of $97 million. Funds generated through Title III programs are used for projects such as food-grain storage facilities, research and extension, or small farm irrigation systems. The program also encourages countries to make major policy adjustments, such as expanding private bank credit in rural areas or phasing out food subsidies for consumers.

Under the Title II food donation program, the United States in fiscal year 1989 donated 2.1 million tons (grain equivalent basis) of food commodities valued at $699 million, including ocean and internal transportation costs, to malnourished people in 70 countries.

Of this amount, at least 1.6 million tons were provided for the regular feeding activities of private voluntary organizations, the World Food Program, and bilateral agreements. Title II donations to the World Food Program contributed to the biennial U.S. pledge of $250 million for 1988/89, as well as the U.S. contribution to the International Emergency Food Reserve.

Title II donations consist primarily of wheat and feed grains and their products. Other commodities include vegetable oil, rice, pulses, processed foods, and soy-fortified products. These latter commodities supply needed caloric and protein benefits to vulnerable groups in keeping with the nutritional objectives of the Title II Program.

While most Title II donations support ongoing feeding activities, the four largest recipients of emergency food aid in fiscal year 1989 were Sudan ($21 million), Afghanistan ($20 million), Ethiopia ($13 million), and Lebanon ($12 million).

Food assistance provided through both the Title I/III and Title II programs of Public Law 480 contributes to meeting the annual U.S. pledge of 4.47 million metric tons of food grains to the Food Aid Convention of the International Wheat Agreement. This pledge was exceeded again in fiscal year 1989.

Given the reduced level of wheat stocks in fiscal year 1989, it was necessary to access the Food Security Wheat Reserve. Of the 4 million metric tons established for the wheat reserve, 1.5 million tons were used to help meet urgent Public Law 480 wheat needs in fiscal year 1989 and up to 2 million tons have been released for use in fiscal year 1990.

SECTION 416(B)

Under Section 416(b) authority, the United States approved slightly more than 1 million tons of CCC-owned commodities for donation overseas during fiscal year 1989. Sorghum represented 60 percent and corn 30 percent of total approvals.

In response to the American Aid for Poland Act of 1988 which called for 8,000 tons of food aid per year for the 1988–92 period, the United States developed and signed a Section 416(b) agreement providing 16,000 tons of food aid covering the years 1988 and 1989. The agreement also established a joint Commission composed of representatives of both governments and the Polish private sector.

The Joint Commission will receive local currencies generated from the sale of the donated commodities. These currencies will be used to support approved projects for humanitarian assistance and economic development in Poland through the enhancement of the private sector, mainly in rural areas.

In fiscal year 1989, five Section 416(b) agreements were signed with organizations in Mexico—four with private voluntary organizations and one with the government's social welfare agency. These agreements provided 252,000 tons of sorghum for use in feeding programs and general distribution to the poor.

Another agreement was signed with Jordan for 236,000 tons of sorghum with an estimated value of $26 million. This first-ever donation of U.S. sorghum also enhances future market potential.

EXPORT ENHANCEMENT PROGRAM

The Export Enhancement Program (EEP) uses CCC commodities to make U.S. products more competitive in the world marketplace and to offset the adverse effects of unfair trade practices or subsidies. Under the EEP, agricultural commodities owned by the CCC are made available as a bonus to U.S. exporters to expand sales of U.S. agricultural products into targeted markets.

The program was developed to achieve three primary objectives: (1) to encourage trading partners to negotiate seriously on reform of world agricultural trade; (2) to challenge unfair trading practices of competitor countries; and (3) to regain overseas markets for U.S. agricultural commodities.

Four guidelines are used to determine the annual funding level and to select proposed sales initiatives under EEP. First, EEP proposals must further the U.S. negotiating strategy of countering competitors' subsidies and other unfair trade practices by displacing other countries' subsidized exports in targeted countries. Second, all EEP initiatives must demonstrate their potential to develop, expand or maintain markets share for U.S. agricultural commodities and consider the U.S. historical market share and long-term commercial relationships. Third, individual EEP initiatives must not have more than a minimal effect on nonsubsidizing agricultural exporters in the market. Finally, the overall program level for EEP, as well as the amount of bonus awards under individual EEP initiatives, will be maintained at the minimum levels necessary to achieve the expected benefits of the program's export expansion objectives, as well as the anticipated long-term benefits from multilateral agricultural trade policy reform.

Since the EEP was initiated in 1985, 105 initiatives have been announced with 65 countries as of March 16, 1990. Over 81 million tons of commodities have been sold, including roughly 74 million tons of wheat and wheat flour (grain equivalent), 7 million tons of barley, 73,000 tons of semolina (grain equivalent), 257,000 tons of barley malt (grain equivalent), and 191,000 tons of rice.

In addition, 167,000 tons of frozen poultry, 462 million table eggs, 525,000 tons of vegetable oil, 319,000 tons of sorghum, 189,000 tons of poultry feed and about 70,000 dairy cattle have been sold. Sales totaled nearly $8.6 billion by the end of fiscal year 1989, and by mid-March they were more than $10.1 billion.

The EEP continues to be an exceedingly important instrument for maintaining the U.S. share of markets where unfair trade practices prevail and for achieving export trade objectives. For instance, 56 percent of all U.S. wheat and wheat flour exports during 1985–89 were shipped under the EEP. A recent review of the program by a USDA task force reached the following conclusions: U.S. exports have been larger because of the EEP; initiatives under this program have cut into EC export sales to its traditional markets; and the more aggressive U.S. export posture has helped spur progress in the Uruguay Round of the GATT trade talks on agriculture.

TARGETED EXPORT ASSISTANCE

The Targeted Export Assistance Program has strengthened the ability of U.S. agriculture to compete in world markets.

Under the TEA program, FAS helps promote the export of U.S. agricultural commodities that have been injured because of unfair foreign trade practices. FAS works with nonprofit agricultural trade associations and U.S. private firms to promote U.S. products through joint industry-government projects in foreign markets.

USDA announced allocations totaling $200 million in fiscal year 1989 to conduct promotional activities for 47 commodity programs in more than 100 foreign markets. The program level for TEA is again $200 million during fiscal year 1990.

The Office of the General Sales Manager has played an active role together with FAS in operating the TEA program, and together, our combined efforts are paying off. A few examples will illustrate the effectiveness of this program.

In Japan, the California Pistachio Commission launched a TEA program that included more than 1,000 in-store demonstrations to impress Japanese consumers with the superior qualities of U.S. pistachios. Pistachio exports to Japan increased 88 percent between October 1988 and July 1989; even more impressive, the U.S. market share rose from 10 to 17 percent.

To compete more effectively with lower-priced Chinese peanuts in the French market, the National Peanut Council staged a TEA-branded promotion in cooperation with a major French manufacturer. The Peanut Council jointly funded television and trade advertising and consumer promotion activities for U.S. peanuts. The French manufacturer increased its sales of U.S. peanuts by over 25 percent in fiscal year 1989.

Turkey has become a brand-conscious rice market as the Rice Council capitalized both on the availability of the Export Enhancement Program and TEA program. U.S. rice sales to Turkey doubled from fiscal year 1988, when the promotion began, reaching 116,500 tons in fiscal year 1989.

A private U.S. company participated in a TEA promotion program staged by the Southern United States Trade Association (SUSTA) and became the leading supplier of bottled cottonseed oil on Korean grocery shelves. The company garnered more than $4 million in sales in its first year of promotion in South Korea.

EXPORT SALES AND RELATED PROGRAMS

The Office of the General Sales Manager continues to use the authority contained in the CCC Charter Act and Section 407 of the Agricultural Act of 1949 to sell CCC-owned commodities for export.

Direct sales volume in fiscal year 1989 totaled over 84,000 tons of butter and butter oil (butter equivalent basis) with a value of $137 million. Not only was sales volume for butter the largest since fiscal year 1981, but sales prices were the highest of the past decade. Major buyers were the Soviet Union, Mexico, Brazil, Iraq, and Jamaica.

Over the four-year fiscal year 1986–89 period, the CCC sold for export some 556,000 tons of CCC-owned dairy products with a value of $515 million. The CCC exceeded the 150,000-ton mandate in fiscal years 1986 and 1987, but did not have a sufficient variety and amount of commodities in stocks during1988 and 1989 to achieve that target.

DAIRY EXPORT INCENTIVE PROGRAM (DEIP)

As mandated by the Food Security Act of 1985, this program provides bonuses on a bid basis to exporters of dairy products, enabling them to compete in targeted international markets with other suppliers. Export sales under the program must be additional to, and not displace, commercial export sales.

The DEIP has supported exports of nearly 10,000 tons of dairy products to 17 countries. Due to reduced availabilities of uncommitted stocks of dairy products, no sales were made under the DEIP program in fiscal year 1989. For fiscal year 1990, the program has been revised so that exporters will receive bonuses in CCC commodity certificates and new country allocations have been announced.

SOAP/COAP

During fiscal year 1989, we implemented two new export programs for vegetable oils—the Sunflowerseed Oil Assistance Program (SOAP) and the Cottonseed Oil Assistance Program (COAP)—as required by the Agriculture Appropriations Acts of 1988 and 1989 to facilitate additional sales of sunflowerseed oil and cottonseed oil in targeted world markets. Under the SOAP, U.S. exporters shipped 54,300 tons of U.S.

sunflowerseed oil to Egypt between December 1988 and April 1989, using nearly 15,000 tons of U.S. oil for payment of the export bonuses. Thus far in fiscal year 1990, sales of 15,000 tons of sunflowerseed oil to Algeria have been made utilizing SOAP. These sales to Egypt and Algeria were in addition to sales of 114,500 tons of vegetable oils made under the Export Enhancement Program during this same period.

BUDGET REQUEST FOR FISCAL YEAR 1991

Our budget recommendations for fiscal year 1991 reflect the continued importance of USDA's export programs in helping U.S. agriculture maintain a competitive position in the international marketplace.

CCC EXPORT CREDIT GUARANTEES

For fiscal year 1991, we will be making available $5 billion of short-term credit guarantees (GSM-102) and $500 million of intermediate export credit guarantees (GSM-103). These program levels are unchanged from fiscal year 1990.

PUBLIC LAW 480 (FOOD FOR PEACE) PROGRAM

For fiscal year 1991, we are recommending a total program level of slightly under $1.5 billion for the Public Law 480 program, which will provide approximately 6.4 million tons (grain equivalent) of agricultural commodity exports. This would be an increase of 500,000 tons above the level presently estimated for fiscal year 1990.

For the Title I/III program, we are recommending a program level of $817 million which will provide long-term concessional financing for 4.4 million tons (grain equivalent) of agricultural commodities.

For the Title II program, we are recommending $646 million, which will provide for 2.0 million tons (grain equivalent) of food donations.

THE GENERAL SALES MANAGER'S OFFICE

For fiscal year 1991, we are recommending $8.1 million for the operation of the General Sales Manager's Office, an increase of $675,000 above the fiscal year 1990 level. The proposed increase will finance 8 additional staff-years, urgently needed to improve the administration and oversight of the Department's commercial export programs, and will offset half of the 1991 pay raise.

This concludes my statement, Mr. Chairman. I welcome the opportunity to answer your questions.

STATEMENT OF WILSON SCALING

Mr. Chairman and members of the Committee, it is a privilege to be here today to discuss the fiscal year 1991 budget proposals for the Soil Conservation Service.

I believe we have before us a realistic and positive budget proposal that will ensure the continued protection of our Nation's soil and water resources. Funding is requested at $724.8 million or about the same as the 1990 funding level. This budget would permit us to step up our efforts to protect the quality of surface and groundwater; to place additional agricultural lands in the Great Plains region under long-term contracts to protect these fragile and important resources; and to expand the number of Resource Conservation and Development areas we assist. Assistance in helping producers comply with the conservation provisions of the Food Security Act would continue, as well as support for other priority soil and water resource needs under existing conservation programs.

FOOD SECURITY ACT PROGRESS

Assisting agricultural producers meet the conservation requirements of the Food Security Act continues as our first priority. I am pleased to report that the job of developing conservation plans on highly erodible lands as required by the law is done. Every producer who needs a plan knows it, and everyone who wants a plan has one. Over the last three years, this has involved the development of conservation plans on some 1.5 million farms covering about 134 million acres of highly erodible land. This tremendous accomplishment is a perfect example of the effectiveness of our conservation partnership. Farmers and ranchers, conservation districts, volunteers, and our own employees, working side-by-side, made this happen.

Of course, our job under conservation compliance is far from over. Our attention will now be turned to helping producers implement their plans, a job which must be done by the end of 1994. We are still in the process of evaluating the specifics of the workload involved, and will keep you informed in this regard. We know it will be a big job, but we look forward to all the conservation that will be going on the land as a result of the efforts of the entire conservation partnership.

I should also mention that we are moving ahead to complete the job of making wetland determinations. We are committed to completing as many of these determinations as possible by December 31, 1991. In addition, wetland inventories are underway in over 900 counties and will continue in about 900 more counties through 1992 to identify wetlands with high potential for conversion to cropland. Landowners need to know where they stand under the law, and we intend to do everything possible to make these determinations reasonable, practical, and technically sound.

We believe that the conservation programs of the 1985 farm bill have been successful and enjoy widespread support among farmers. The anticipated soil loss reduction for the 34 million acres now enrolled under the Conservation Reserve Program is estimated at about 656 million tons per year. Significant reductions in erosion from other highly erodible lands as well as improvements in water quality, wildlife habitat, and other benefits are also being realized as compliance plans are put into place.

The fiscal year 1991 budget includes an increase of $3.2 million for non-salary operating costs to continue support under our conservation technical assistance program for Food Security Act work and the other ongoing conservation activities carried out under this program. Supporting activities to conduct soil surveys, operate our plant materials centers, and carry out the snow survey program would also continue at about the 1990 operating level.

WATER QUALITY

Our other top national priority is the protection and enhancement of water quality and quantity. The budget proposes a total of $44.1 million, an increase of $17.6 million above the 1990 level, to continue and expand SCS water quality technical assistance as part of a coordinated governmentwide initiative. USDA has a key leadership role in this initiative which is directed at the prevention of surface and groundwater contamination from nonpoint sources which includes some agricultural activities.

The Department's approach to working with the agricultural sector on the issue of water quality is based on: A voluntary, nonregulatory approach to conservation; commitment to protecting water resources without jeopardizing the economic vitality of U.S. agriculture; full cooperation between government agencies at the Federal, State, and local levels, and with the private sector; and respect for private property rights and responsibilities.

We believe that farmers and ranchers continue to be the most concerned citizens this Nation has when it comes to water quality and quantity. They know that agriculture must assume responsibility for prudent management of soil, water, agrichemicals, and animal waste.

SCS, along with other USDA agencies, has responsibility for providing farmers and ranchers with the information they need to voluntarily adopt technically sound and cost-effective management practices that protect water resources. Existing and emerging research results must be translated into preventative measures that fit local conditions. With funds provided by the Congress for fiscal year 1990, we are moving ahead with a program to carry out this responsibility.

A vital part of this initiative is to make sure that our field staffs have the technical knowledge and skills they need to work effectively with our clientele. The budget includes a total of $7.5 million, $2.6 million above the 1990 level, to develop appropriate technical standards and specifications for conservation practices that address water quality concerns, and to train our people in the proper application of these techniques.

The remaining funds, $36.6 million, an increase of $15 million above the 1990 level is to provide expanded assistance to areas with identified water quality improvement needs. Agricultural watershed areas, or hydrologic units, have been selected in 37 states to receive special assistance in 1990, and another 37 areas would be designated in 1991 under this budget proposal.

Ongoing technical assistance provided to certain regional programs that address multi-state water quality problems, such as in the Great Lakes, the Chesapeake Bay, the Gulf of Mexico, and the Tennessee River Valley would be increased. In addition, eight projects have been funded in 1990 to demonstrate widespread voluntary adoption of newly developed conservation measures to manage agricultural uses of nutrients and pesticides to effectively address identified water quality problems. The 1991 budget request would fund eight additional projects for this purpose.

On all aspects of this initiative we're working cooperatively with the Extension Service, Agricultural Stabilization and Conservation Service, the Environmental Protection Agency, U.S. Geological Survey, and State and local units of government as well as those farmers and ranchers involved. We recognize that the leadership for nonpoint source water quality concerns rests primarily with State and local governments who have responsibility for nonpoint source water quality planning including establishing water quality standards and setting priorities under Section 319 of the Water Quality Act of 1987. The success of this whole effort depends upon cooperation, coordination, and communication at all levels; and on flexible programs that are technically and economically sound. We believe we are off to a good start towards meeting these objectives.

OTHER BUDGET AND PROGRAM INITIATIVES

The budget includes an increase of $3.6 million for the Great Plains Conservation Program. Persistent drought and record levels of land damaged by wind erosion continue to plague this important agricultural area. Wind erosion damage on cropland and rangeland in the Great Plains, although below the record-breaking highs of 1988, remains nearly 60 percent above the 20 year average, and many areas are entering the spring with very low soil moisture. There is an unusually high potential for wind erosion damage this year.

The Great Plains Conservation Program has a proven track record for helping farmers and ranchers protect their fragile soils from erosion and conserve limited water supplies. Under this program, conservation plans are the basis for long-term contracts between the private land user and the Federal government. Total resource management systems are put into place on the entire operating unit. Federal cost-share assistance ranging from 25 to 80 percent of the costs incurred by program participants for installation of eligible conservation practices is provided. Currently, about 16 million acres of land in the 518 designated counties are under about 5,000 active contracts. The 1991 budget would permit us to sign over 1,100 new contracts on an estimated 3.2 million acres, an increase of about 14 percent above the 1990 level. A recommendation that the authorization for the Great Plains Conservation Program, due to expire on September 30, 1991, be extended for another ten years is included with the Department's 1990 Farm Bill proposals.

At the direction of the Congress, and with funds provided in 1990, we have just recently authorized four new Resource Conservation and Development (RC&D) areas. These new areas covering 15.5 million acres in 19 counties are in the states of Pennsylvania, Tennessee, Utah, and the northern panhandle of West Virginia. This brings the total number of authorized RC&D areas to 194. The 1991 budget proposes to add two more new areas for a total of 196.

This program enables us to support rural revitalization by helping local communities work together to identify natural resource and economic needs, set priorities, develop plans of action, and tap resources available from local, State and Federal sources and the private sector to the fullest extent possible. Through the efforts of RC&D councils and local sponsoring organizations, local communities have improved water supplies and community facilities, marketed local products, reduced erosion, provided flood protection, and improved recreational facilities.

The 1991 budget emphasizes the technical assistance role provided by SCS through RC&D area coordinators. Funds available for financial assistance would be reduced as local sponsors are increasingly able to obtain funding from other sources to implement area plans.

WATER RESOURCE ACTIVITIES

While a reduced level of funding is proposed for SCS water resource programs including River Basin Surveys and Investigations, Small Watershed Planning, and Watershed and Flood Prevention Operations, you will note that these reductions, in total, are less severe than those proposed in past years. We have been working to make these programs as efficient and effective as possible by a number of management actions. These include conducting a careful priority-setting process at the local level; emphasizing cost-effective measures such as land treatment, small on-farm structures, and nonstructural measures; and encouraging local sponsors to assume a greater share of the costs of this work. Efforts are ongoing to work with local watershed project sponsors to remove those projects that we agree are no longer needed or feasible due to economic or environmental concerns from our inventory of work.

Over $200 million worth of planned work has already been eliminated through this process.

We recognize the good record of accomplishment achieved through these programs. We also recognize the need to meet viable program commitments. The 1991 budget would enable us to continue high priority work underway to reduce erosion and flood damages; improve the management, conservation, and quality of water; and support continued rural development.

That concludes my prepared statement, Mr. Chairman. I will provide for the record tables showing a summary of the 1991 budget for SCS by account and program, and a listing of funds appropriated by state and local governments for soil conservation programs for fiscal year 1990. With the help of my staff, I will be happy to answer your questions.

SOIL CONSERVATION SERVICE—FISCAL YEAR 1991 BUDGET

[In thousands of dollars]

	Fiscal year 1989 actual	Fiscal year 1990 current estimate [1]	Fiscal year 1991		
			Pay cost	Program changes	Total request
Conservation operations:					
Technical assistance	386,694	396,426	+7,050	+20,832	424,308
Soil surveys	68,203	68,075	+1,148	+589	69,812
Snow surveys and water forecasting	5,494	5,447	+69	+47	5,563
Operation of plant materials centers	5,043	7,161	+81	+73	7,315
Total, conservation operations	465,434	477,109	+8,348	+21,541	506,998
River basin surveys and investigations:					
USDA cooperative studies	8,143	8,306	+120	−1,432	6,994
Flood plain management assistance	2,463	2,512	+29	−425	2,116
Interagency coordination and program formula	1,445	1,474	+22	−255	1,241
Total, river basin surveys and investigations	12,051	12,292	+171	−2,112	10,351
Watershed planning authorized by Public Law 566	8,651	8,824	+113	−2,062	6,875
Watershed and flood prevention operations:					
Watershed operations authorized by Public Law 534:					
Technical assistance	13,412	13,640	+218	−591	13,267
Financial assistance for construction	12,779	12,170		−5,297	6,873
Loan services	80	79		−1	78
Subtotal, flood prevention	26,271	25,889	+218	−5,889	20,218
Emergency watershed protection operations	10,000	19,855	+41	−9,855	10,041
Small watersheds authorized by Public Law 566:					
Technical assistance	52,269	53,758	+853	−1,387	53,224
Financial assistance for construction	83,658	81,193		−13,736	67,457
Loan services	175	172			172
Subtotal, watershed operations	136,102	135,123	+853	−15,123	120,853
Total, watershed and flood prevention operations	172,373	180,867	+1,112	−30,867	151,112
Great Plains Conservation Program:					
Cost-sharing assistance	12,229	12,603		+2,848	15,451
Cost-share program and contract administration	2,638	2,650	+48	+242	2,940
Technical assistance	5,607	5,631	+102	+513	6,246
Total, Great Plains Conservation Program	20,474	20,884	+150	+3,603	24,637
Resource conservation and development:					
Technical assistance	18,330	20,235	+375	+1,905	22,515
Financial assistance	6,730	6,961		−4,673	2,288
Loan services	60	59			59
Total, resource conservation and development	25,120	27,255	+375	−2,768	24,862
Subtotal, SCS appropriated funds	704,103	727,231	+10,269	−12,665	724,835
Rural Abandoned Mine Program	(12,000)	(12,000)		(−9,886)	(2,114)

SOIL CONSERVATION SERVICE—FISCAL YEAR 1991 BUDGET—Continued

[In thousands of dollars]

	Fiscal year 1989 actual	Fiscal year 1990 current estimate [1]	Fiscal year 1991		
			Pay cost	Program changes	Total request
Trust funds	887	560			560
Total, Soil Conservation Service	704,990	727,791	+10,269	−12,665	725,395
Ceiling staff years	13,954	14,177			13,821

[1] Fiscal year 1990 Appropriation Act net of the 1.4 percent Gramm-Rudman-Hollings sequester and appropriation transfers.

FUNDS APPROPRIATED BY STATE AND LOCAL GOVERNMENTS FOR CONSERVATION PROGRAMS—FISCAL YEAR 1990

State	State government	Local government	Total
Alabama	$4,100,500	$912,230	$5,012,730
Alaska	72,500	1,000	73,500
Arizona	905,344	677,041	1,582,385
Arkansas	1,328,000	1,414,000	2,742,000
California	3,131,000	1,274,000	4,405,000
Colorado	904,375	595,443	1,499,818
Connecticut	3,351,100	598,900	3,950,000
Delaware	4,121,000	904,000	5,025,000
Florida	5,203,000	2,692,753	7,895,753
Georgia	3,010,000	2,710,000	5,720,000
Hawaii	8,524,938	2,239,418	10,764,356
Idaho	2,369,889	135,850	2,505,739
Illinois	7,608,137	2,270,316	9,878,453
Indiana	11,765,775	3,274,571	15,040,346
Iowa	16,781,347	1,447,023	18,228,370
Kansas	9,688,896	2,364,151	12,053,047
Kentucky	5,213,600	2,866,200	8,079,800
Louisiana	3,156,000	229,000	3,385,000
Maine	559,403	533,530	1,092,933
Maryland	11,401,784	5,192,883	16,594,667
Massachusetts	357,000	444,500	801,500
Michigan	4,686,064	1,735,503	6,421,567
Minnesota	32,730,200	21,824,000	64,554,200
Mississippi	357,808	3,518,506	3,876,314
Missouri	21,503,725	265,187	21,768,912
Montana	4,589,417	1,115,196	5,704,613
North Carolina	9,959,995	7,203,311	17,163,306
North Dakota	825,000	1,029,350	1,854,350
Nebraska	5,698,693	5,806,027	31,404,720
New Hampshire	46,745	238,286	285,031
New Jersey	1,678,947	5,185,697	6,864,644
New Mexico	283,146	693,730	976,876
New York	15,450,000	4,103,000	19,553,000
Nevada	11,253	166,744	177,997
Ohio	7,332,150	3,978,368	11,310,518
Oklahoma	4,158,206	2 222,868	6,381,074
Oregon	811,284	1,378,636	2,189,920
Pacific Basin		510,748	510,748
Pennsylvania	2,599,000	2,830,000	5,429,000
Puerto Rico	8,819,314	457,798	9,277,112
Rhode Island	35,000	14,700	49,700
South Carolina	2,994,700	1,559,655	4,554,355
South Dakota	429,650	714,200	1,143,850
Tennessee	876,385	1,715,583	2,591,968
Texas	3,951,949	95,344,047	99,295,996

FUNDS APPROPRIATED BY STATE AND LOCAL GOVERNMENTS FOR CONSERVATION PROGRAMS—FISCAL YEAR 1990—Continued

State	State government	Local government	Total
Utah	7,510,200	701,192	8,211,392
Vermont	430,200	37,700	467,900
Virginia	8,909,270	2,080,450	10,989,720
Washington	4,980,536	3,091,292	8,071,828
West Virginia	4,453,213	1,178,200	5,631,413
Wisconsin	5,908,900	14,319,576	20,228,476
Wyoming	3,530,200	629,010	4,159,210
Total	269,104,738	238,325,369	507,430,107

EMERGENCY CONSERVATION PROGRAM FUNDING

Senator **BURDICK**. The budget requests no funding for the Emergency Conservation Program, and I direct this to Mr. Bjerke.

In your statement you indicate that future emergency needs for farmland rehabilitation cannot be predicted and will be addressed as the need arises. It is my understanding that you currently have requests for funding under this program totaling more than $6.5 million, yet you are requesting no money and have requested no supplemental appropriation to cover these needs.

Do you have this amount of need under ECP; if so, how are you addressing the need?

Mr. **BJERKE**. Yes, sir; there was a bill passed, I believe, last night on the House side with the supplemental appropriation for the ECP for this current year. We are short, as you are aware, for this year.

For the 1991 budget, however, we have no assumptions as to what the emergencies might be, so we are only requesting consideration of this emergency appropriation now.

Senator **BURDICK**. The question is why have you not requested us to provide the money?

Mr. **BJERKE**. I think that the Congress has indicated that they are looking at the situation. Until we know what the shortfall is going to be, it is very difficult to come up with a good figure, because it changes weekly.

As of this morning we are sitting on about $15 million of unfulfilled requests, and 2 weeks ago it was $10 million. In between that it dropped down, and now it has come back up. Until such time as we can kind of get our arms around what the total is going to be, it is very difficult to have a good number for an emergency request.

Senator **BURDICK**. You firmly intend to get your arms around it?

Mr. **BJERKE**. Yes, sir.

Senator **BURDICK**. Could you give us a list of the current needs for ECP funding in the project by States? If you do not have it there, could you supply it?

Mr. **BJERKE**. I have such a list that is up to date as of this morning, but it is not a firm list because, as I mentioned, these numbers vacillate. If the chairman so requires, we would be glad to make available for the record today's list.

Senator **Burdick**. In 5 or 6 days you could give us a list of what you have?

Mr. **Bjerke**. Yes, sir.

Senator **Burdick**. Thank you.

[The information follows:]

UNFUNDED ECP REQUESTS FROM STATES

[As of April 4, 1990]

State	Disaster	Amount requested
Alabama	Flood	$9,959,060
Do	Tornado	20,000
Arizona	Brush fire	7,000
California	Flood	140,000
Do	Earthquake	425,000
Connecticut	Flood	12,500
Florida	do	120,000
Georgia	do	990,000
Do	Tornado	29,500
Hawaii	Flood	22,146
Illinois	Drought	223,700
Iowa	Flood	22,500
Do	Drought	248,000
Kentucky	Flood	3,750
Mississippi	Flood	65,850
Missouri	Drought	42,500
Do	Tornado	10,000
Nebraska	Flood	25,000
New Mexico	do	14,060
North Carolina	Hurricane	1,000,000
North Dakota	Flood	1,195
Oregon	do	98,938
Do	Wildfire	15,340
Puerto Rico	Hurricane	135,310
South Carolina	do	1,534,972
Texas	Drought	68,250
Do	Tornado	28,285
Virgin Islands	Hurricane	252,203
Total		15,151,059

TARGET PRICE LEVELS

Senator **Burdick**. I ask this question of Secretary Crowder. In the administration's farm bill you base your 1991 budget on frozen target prices. On the other hand, you suggest that one way to achieve the $1.5 billion in savings would be to reduce target prices.

How much would target prices have to be reduced in order to achieve these savings?

Mr. **Crowder**. Mr. Chairman, I do not have a specific number in terms of how much reduction it would take. Our budget proposal was based on frozen target prices, but in the farm bill proposal we said there were a number of ways to achieve the $1.5 billion reduction, and we propose to work with Congress to develop the most appropriate way to reach that, whether it be one way or a combination of ways.

I will get a specific number, if you want one, which it would take to get the $1.5 billion savings.

Senator **Burdick**. I am wondering if it will be more than a 5-percent reduction.

Mr. **Crowder**. I do not have a number with me today, Senator, but we can provide you numbers under various assumptions. It would vary according to different assumptions.

[The information follows:]

In the absence of legislation covering the 1991 crops, the current law estimates reflected in the President's January Budget assume 1991 crop target prices which are the same as those in effect for 1990 crops. Assuming these target prices are the base from which $1.5 billion will be saved in FY 1991, a target price reduction of 7 to 9 percent would be required. This number further assumes (as does the January Budget) that 40 percent of 1991 crop deficiency payments will be advanced. Additional savings of about $2 billion would be realized in fiscal year 1992 when final 1991 crop deficiency payments would be made.

A reduction to 1991 crop target prices is not the only way, as the Department has testified on numerous occasions, to achieve the needed savings. We prefer to work with the Congress on other workable options as well, some of which include reductions in acreage eligible for program payments and further tightening of payment limitations.

ADDITIONAL FUNDING FOR EMERGENCY WATERSHED OPERATIONS

Senator **Burdick**. I address this to Mr. Scaling. Congress is currently considering a supplemental appropriation bill for 1990. What is the current need for additional funding for emergency watershed projects funding? Please give me a list of current needs by project and States, which can be supplied later, I presume.

Mr. **Scaling**. Yes, sir; that will be supplied at a little later date if we could, please.

Senator **Burdick**. Give us a general view of the current needs as you see them.

Mr. **Scaling**. Approximately $42 million.

[The information follows:]

EWP PROJECTS WAITING FUNDING AS OF 4/10/90

STATE	DATE RECEIVED	CLASS a/ WORK	PROJECT NAME	TOTAL REQUEST
AL	07-11-89	NE	Coffee, Cranshaw Cty.	$158,000
AL	09-06-89	NE	Coffee Cty, Hwy. 105	40,000
AL	09-25-89	NE	Bidd Cty.	22,000
AL	01-29-90	NE	Dale County	40,000
AL		NE/E	February Storm	2,500,000
AL		NE/E	March Storm	5,000,000 d/
Total AL				(7,760,000)
AR	09-14-89	NE	Benton, Saline Cty.	36,000
AR	09-15-89	NE	Pulaski Cty.(Penn.Bayou)	22,000
Total AR				(58,000)
FL		NE/E	March Storm	2,000,000 d/
GA		NE/E	February Storm	500,000 c/
KY	12-22-89	NE	Pond Creek	85,000
LA		NE	Cameron Parish	150,000
MI	07-13-89	NE	7 Ctys., South Michigan	864,000
MS	05-23-89	NE	Claibourne, George, Hinds, Oktibbeha, Tishomingo Ctys.	634,000
MS	06-29-89	NE	Adams, Copiah, Waltham Ctys.	400,000
MS	07-14-89	NE	Adams, Alcorn, Lee, Prentiss Ctys.	488,000
MS	08-03-89	NE	Bolivar, Coahoma, Leflore Ctys.	598,000
MS	08-08-89	NE	Adams, Alcorn, Warren Cty.	626,000
MS	08-29-89	NE	Clay, Forrest, Prentiss Holmes, Warren, Webster Cty.	667,000
MS	08-29-89	NE	Perry, Covington Ctys.	86,000
MS	09-20-89	NE	Lowndes Cty.	131,000
MS	01-12-90	NE	Scott, Harrison Ctys.	104,000
MS	03-30-90	NE	Tallahatchie, Walobushacahoma, Washington, Simpson	680,000
MS		NE/E	February Storm	10,000,000
Total MS				(14,414,000)
NJ	10-23-89	E	Greenich Twp, Dike Repair	200,000
OK		NE/E	March Storm	500,000 d/
PR		NE	Remaining Hurr. Hugo Damages	2,638,000 b/
SC		NE	Remaining Hurr. Hugo Damages	10,000,000 b/
VA	08-07-89	NE	Patrick Cty.	16,000
GRAND TOTAL				$39,185,000

a/ NE = Nonexigency E = Exigency
b/ Estimated remaining need. All priority exigency work is funded.
c/ $100,000 to be transferred to U.S. Forest Service.
d/ Best estimate as of 4/10/90. Assessment is continuing.

WIND EROSION IN THE GREAT PLAINS

Senator **Burdick**. I note that in a recent news release put out by your States, nearly 5 million acres in the Great Plains have been damaged by wind erosion since last November. This is the second highest figure on record. I note that North Dakota had the greatest damage, with a State record of 1.6 million acres damaged, almost one-third of the total reported. For North Dakota, this damage is four times as grave as the same time last year.

Obviously this news is alarming. While I recognize that we have some extenuating circumstances this year because of the continuing drought and the lack of snow cover, I am nevertheless concerned about the progress we are making on erosion.

Are we making any progress?

Mr. **Scaling**. Yes, sir; we are making significant progress in soil erosion control. As you say, the drought is a big cause of this increased wind erosion. As you know, when the weather is dry it can become very difficult, if not impossible, to control erosion. The Conservation Reserve Program alone has reduced soil erosion by some 650 million-plus tons across the Nation. By the time our conservation compliance plans, which we finished ahead of schedule, are implemented within the next 5 years, soil erosion is going to be reduced by about 75 percent across the Nation. Wind erosion reduction as a result of the CRP will be especially relevant in the Great Plains areas.

We are moving now to start implementation of conservation compliance plans. I might add, Senator, the plans on one-third of the highly erodible acreage have already been implemented. So we are way down the road on implementation of this, sir.

CORRELATION OF WIND EROSION RATES

Senator **Burdick**. Well, that is good news.

Mr. **Scaling**. We thought so, too.

Senator **Burdick**. North Dakota has the highest wind erosion, and Texas has the second highest. This appears to be in reverse correlation.

Is CRP helping with wind erosion, since it is putting cover on erodible acres? What is the correlation?

Mr. **Scaling**. I cannot tell you the correlation, sir, but, yes, it is just natural that the more ground you can get a permanent establishment of grass or trees on, the more control you are going to have on wind erosion.

I might also add that on highly erodible cropland, for purposes of conservation ASCS, and SCS working together will swap base acreages on a one-time basis so one can put a high-residue crop on land that ordinarily has a low-residue crop base on it. That is part of what we are doing at the Department of Agriculture in order to help private sector farmers and ranchers as they continue to implement their conservation plans.

Senator **Burdick**. Senator Fowler has arrived. I am pleased to introduce you.

Do you have any questions for these fine people?

WELL WATER TESTING AND WATER QUALITY ANALYSIS

Senator **Fowler**. Thank you, Mr. Chairman. Let me just follow up on one of yours.

Of the $207 million in the water quality initiative, is any of that for well testing? How are you going to do your data collection and analysis without well testing? The testimony from which I am reading says $207 million. You have a 33-percent increase. Water quality initiative includes research, education and technical assistance, data collection and analysis.

How do you collect data on water quality without well testing?

Mr. **Scaling**. To whom are you addressing the question, sir?

Senator **Fowler**. I think it is your budget, Mr. Scaling. It is the SCS. It says you have the major responsibility in implementing the program.

Mr. **Scaling**. Just a second, sir.

[Pause.]

Mr. **Scaling**. Sir, my colleagues tell me that the majority of USDA's water quality monitoring efforts are funded through the ERS, Economic Research Service. Their activities will focus on data collection in the area of agricultural use of pesticides and nutrients.

WATER QUALITY PHILOSOPHY

Senator **Fowler**. I have to go back. We started the 1990 farm bill markup today in the Agriculture Committee, and I have some responsibility for the conservation title. I am working with all your people, and Senator Dole and I have the majority of the committee on our proposal in the title.

One of the things, of course, in great controversy is whether or not we ought to do mandatory well testing. We have some mandatory well testing, but it is sort of like taking a poll. We are going to test about 100 or so wells out of this big country, but I do not know why we cannot get—it seems to me that if we keep bragging about all this water quality initiative—what we really need is a data base. We need to know what is in the water, we need to know where we have problems.

EPA has identified 33 States, I think, where what they describe as normal agricultural practices have led to serious water contamination problems in surface and ground water.

I guess what I am musing about out loud is it just seems to me that we ought to put all this stuff together.

Mr. **Scaling**. Senator, could I philosophize with you for a second, sir?

Senator **Fowler**. I would be delighted. I hope your philosophy is better than mine.

Mr. **Scaling**. I do not know if it is. I think between the two of us we can work this thing out, though.

Senator, as you know, for 50 years the Soil Conservation Service has worked voluntarily with private sector farmers and ranchers. We have a tremendous amount of credibility in the agricultural community. I am speaking for just my agency. I would like to think, Senator, that our farmers and ranchers, all 2 percent of those who live out in the country who produce food and fiber, would have a personal fear about poisoning their own wells because their families are the ones drinking this water.

Second, sir, I certainly would like to think that we could start any well testing or data gathering on a voluntary basis because we are just initiating the effort. We worked beautifully for all these years on a voluntary basis, and I certainly would like to be able to try to continue this. We can always change our policy at a later date if it does not work.

Please, if we could start providing water quality technical assistance on a voluntary basis I think it would be much more palatable with our clients that we serve.

UNCERTAINTIES RELATED TO GROUND WATER CONTAMINATION

Senator **Fowler**. To continue to philosophize, it is already very, very late. We have terrible contamination problems in many places. Our Government in its public responsibility has not—I see that in 1989 the money has nothing but zeros under data collection and analysis. This is under your water quality program 1989 actual dollars: Data collection and analysis, Economic Research Service, 0.0; Extension Service, 0.0; subtotal, 0.0.

Now, in Georgia we have an awful lot of farmers who would like to know what is in their water, but it costs too much. It costs $800 or $1,200, depending on what you test for. They simply cannot afford it. A lot of them, honestly, are afraid to know what is in the water, too, I would imagine.

I just refuse to be a part of all the fancy names for things that do not succeed in what we need to know. If my little proposal passes in the Agriculture Committee, it is sort of spot testing in places where we think we have problems.

I do not see why in the world if you are going to brag about a water quality program and how much data collection analysis you are going to do, I would like to see the Department voluntarily start getting some hard facts. The only way you are going to do that is by testing the water, and then we can see where the problems are and what we need to do about it as a matter of public policy working together.

By taking the approach or even hinting at the approach that anything that you are told to do is somehow inappropriate is not going to get us the data that we need to make these decisions. It is all out there.

I want to see the agriculture business written in this committee and in the Agriculture Committee. I want the farmer in the field to know if he has a problem, and we will devise a solution in the field. I know that is what the Conservation Service and the Extension Service want, but if we are not going to do it then it is going to be written by Mr. Waxman and Mr. Kennedy, and they are going to tell us what we can do and what we can put on our crops and where we have problems. I want some leadership out of the people who ought to be leading.

That is my philosophy for the morning, and I hope you will consider it since the present administration wants to talk about water quality. I want to see some results, and we do not have those results right now, quite frankly. We have not spent a dime on it. We do not know the extent of the problem. All we know is we keep finding more and more and more chemicals from—another misuse of the word—normal. It is not normal. The opposite of normal is, I guess, still abnormal. It is regular agricultural practices, and all the farmers need to know that.

Mr. SCALING. We have established eight demonstration projects in 1990. We plan to establish additional demonstration projects in the future. We have 37 hydrologic units already on the ground gathering data. I think, sir, we will have some good, hard figures within the next 12 to 24 months. It just takes time to get the information and data analysis completed. We are working on completing this. We are working on it cooperatively as an entire department, because each agency has a certain role to play, and each one of us is playing that role.

The Department has never been more organized and more together than they are right now on the problem of water quality.

Senator FOWLER. I am delighted to hear that, and, the good Lord willing, the chairman and I will be here 12 months from now and be eager for your data—not report but hard data.

Mr. SCALING. Yes, sir.

Senator FOWLER. Thank you, Mr. Chairman.

Mr. SHERMAN. Senator Fowler, if I might add some information regarding the Department's proposal. In the 1990 current program level we expect to spend about $2 million in the data collection area, proposing an increase to $3.5 million for 1991. That is primarily to collect pesticide use data on the major crops in that area.

At the same time we do have an opportunity to expand our efforts in the research side, both the Federal research and the State research activities in improving the understanding of the transport and deposit of the agricultural chemicals in the soil and water and research to develop less costly ways of ground water sampling techniques. Those methodologies need to come together along with the Soil Conservation Service efforts and the other initial data collection efforts to expand into some of the areas that you are referring to, sir, as the program continues to develop.

Senator FOWLER. Good.

Mr. Chairman, thank you very much.

VALUE ADDED PRODUCTS

Senator BURDICK. In the 1990 appropriations conference report FAS was directed to report to Congress concerning its activities to promote export of value added products 120 days after enactment.

What has FAS accomplished concerning this report, or when can we expect it? Anyone may answer.

Mr. ANDERSON. Mr. Chairman, that report is in its final stages and should be on its way up to Congress within the next week or so. We have made some progress on our value added exports. We have about $10 billion of, I think, 40 billion dollars' worth of total exports in the value added area and about $7 billion in the intermediate area. About $23 billion are bulk.

For the first 4 months of this year our value added trade is up about 7 percent compared with a year ago, and we are concentrating our promotional efforts in the Targeted Export Assistance Program. Some two-thirds of that program is geared and directed toward the promotion of value added products, so FAS is making a major effort in its market development program to promote the value added products.

Senator BURDICK. What other efforts have been undertaken to increase the export of value added products?

Mr. ANDERSON. Well, as I mentioned, there is a lot of activity in the Targeted Export Assistance Program which varies considerably from country to country. We are also working in our High Value Products Division on trade servicing the high value products area. I would be happy to submit for the record the activities that we have in addition to the Targeted Export Assistance Program in support of the high value products.

Senator BURDICK. I think that would be good. If you can give it to the committee within a short time, that would be fine.

[The information follows:]

In addition to market development activities funded under the Targeted Export Assistance Program, other programs have also been used to increase U.S. exports of high value agricultural products. The Export Enhancement Program, and both short-term and medium-term export credit guarantees have been utilized to counter EC export subsidies and to open new markets for high-value products. For example, the Export Enhancement Program has been utilized to improve our ability to compete effectively against subsidized EC exports of poultry to the Dominican Republic and Iraq, wheat flour to North Africa and the Middle East, and vegetable oil to Morocco, Tunisia and Algeria. Export credits have financed a wide range of U.S. exports of high-value products to low and middle income countries throughout the world. In addition, U.S. trade negotiations have focused on gaining access for U.S. high-value product exports and toward standardizing animal and plant health barriers.

PUBLIC LAW 480

Mr. ANDERSON. Thank you.

Senator BURDICK. Who is an expert on Public Law 480?

Mr. ANDERSON. That would be the Foreign Agricultural Service.

Senator BURDICK. The President's 1991 budget proposes to reduce the appropriation for Public Law 480 by $80 million below the 1990 amount of $978 million.

With such a substantial reduction in funds, how could the administration claim that the quantity of commodity shipments will not be reduced? For what commodities and in what amount are prices expected to fluctuate based on the President's budget? Who wishes to speak to this Public Law 480 problem?

Mr. ANDERSON. I can speak to it, Senator.

The current fiscal year 1991 budget proposes $817 million for title I and title III programs. That is a reduction from the $849 million this year, but the tonnage is up from 4 million metric tons to 4.4 million metric tons.

So even though the funding level decreases, we can still buy more commodities, and another 400,000 tons will go into the title I/III programs.

In the title II program the funding level is also down by $27 million, from $673 to $646 million; but again, the tonnage is up from 1.9 to 2 million metric tons. So in the total Public Law 480 program, we are projecting the tonnage going from 5.9 million tons in fiscal year 1990 to 6.4 million tons in fiscal year 1991.

You are correct in saying that the level is down for those two programs of $59 million, but because prices are down we are able to actually increase the tonnage of commodities moving under the Public Law 480 program.

Senator BURDICK. How do you determine what the amount of the tonnage is going to be?

Mr. ANDERSON. We do a docket of the available supplies, which takes into consideration the surplus supplies in the market and what countries are requesting. It is through this process that we estimate the tonnage that can be moved under the program.

Of course, it depends on the price situation as well.

Senator BURDICK. How much are prices down in those commodities?

Mr. ANDERSON. Well, we are forecasting lower wheat, feed grain, and soybean prices. We can submit an analysis to you outlining the difference between the anticipated lower prices that we think we will be looking at in fiscal year 1991 and this current fiscal year and the effect on tonnage. We would be happy to submit that analysis to you for the record.

Senator BURDICK. That is very helpful, and I might say to the panel that we would like to have these additional pieces of information in about 5 days if you can do it.

[The information follows:]

There are two major reasons why our fiscal year 1991 budget estimates show higher tonnage exports with fewer dollars when compared with fiscal year 1990. First, most commodity prices are forecast to be lower in fiscal year 1991 than in fiscal year 1990, and secondly with a return to more normal wheat supplies during the fiscal year 1991 period more wheat can be programmed. Since the cost of wheat per ton is lower than most of the other commodities, we can increase the tonnage of food aid provided by exporting relatively more wheat.

Under the Title I/III program of P.L. 480, prices of four out of the six commodities programmed are estimated to decline. Overall estimated prices dropped an average of 8 percent. In addition, because of an expected increase in the availability of wheat, current planning includes more wheat in 1991 than in 1990, and less of the more expensive commodities. Programming more wheat, coupled with an overall reduction in prices, allows the programming of more tonnage at a lower cost.

Under the Title II program, prices of nine out of the thirteen commodity groups programmed are estimated to decline; and, overall estimated prices dropped by an average of 8 percent. Again, because of the increased availability of wheat in 1991, more wheat and wheat products are programmed in 1991 than were in 1990.

Senator BURDICK. Arrived here is the man from Iowa.

Senator GRASSLEY. Thank you.

This State has to protect its interests. That is why we have two Iowans on here, because North Dakota has too much power. Pardon me for being facetious.

Thank you two for your consideration of my being late.

I would like to ask several different questions, and anybody in whose area it falls may respond accordingly.

SWAMPBUSTER DETERMINATIONS

Does the Fish and Wildlife Service have veto power over the ASCS with regard to swampbuster commenced determination?

Mr. BJERKE. No, sir, it does not.

Senator GRASSLEY. If the Fish and Wildlife Service does not concur with the county ASC committee determination, does the committee have to act upon the notice from the Fish and Wildlife Service?

Mr. **Bjerke**. If they cannot come to an agreement at the county level, then it is elevated to the State committee who again considers the matter, and final determinations are made here in Washington by our deputy administrator.

Senator **Grassley**. Does that give the Fish and Wildlife Service then at the local level an effective veto?

Mr. **Bjerke**. It extends the decision. It does not give them a veto.

Senator **Grassley**. What about where farmers have gone ahead and spent money, based on ASCS determination that they could spend money, and a year later Fish and Wildlife comes back and says that they do not agree with it?

Mr. **Bjerke**. Then we use the appeals process, and the farmer submits the appeal. That is why some of the numbers surrounding swampbuster violations go up and down, because of the resolution of these appeals.

Senator **Grassley**. So if the farmer spent the money based upon your agency's determination that he was not violating the law or that he was in compliance with the law and later on an appeal decides that he was not in compliance with the law, then he has just thrown his money away?

Mr. **Bjerke**. Well, most of the time the determinations made originally are correct and stand to uphold the farmer's rights. If we make a mistake, then we assume our responsibility in that area.

Senator **Grassley**. You would assume your responsibilities. Does that mean that you would pay the farmer back his costs for the mistake that you made?

Mr. **Bjerke**. I think the decision has been made, on a case-by-case basis, that we have ways to make the farmer whole. If the mistake was made in going beyond his authority, then we get into the situation of what payments need to be collected or put out.

Senator **Grassley**. What is the ASCS's current definition of active pursuit?

Mr. **Bjerke**. Activity that takes place on a project each year of the project, unless there is an injunction or some appeals process that has delayed the activity. Then the clock stops. If the clock is running and due to a lack of funds or a lack of interest there is a lack of completion of a project, that does not then constitute a continuous pursuit.

Senator **Grassley**. OK. So if a farmer has drought, has no income, does not have that extra money that he normally spends on tiling, and he cannot borrow the money, let us say, and maybe it is not wise to borrow the money because of cash flow, et cetera, he is not in violation of the law?

Mr. **Bjerke**. He is not in continuous pursuit. If his priority is to spend his money for something other than drainage, it does not count that he has no money in his checkbook to conclude his project.

Senator **Grassley**. OK. So you are saying, then, that if a farmer has had a drought and he has no income, you still expect him to pick the money off of a tree and tile; right?

Mr. **Bjerke**. Yes, we do.

Senator **Grassley**. I just wonder. Is that right? Is that really economically sound public policy?

Mr. **Bjerke**. Anytime we try to define something that is uniform and fair, we get into an individual case problem; but spending money involves priorities. There has to be a priority system in place.

Senator **Grassley**. I do not know how it is in North Dakota, Mr. Chairman, but the way it is in Iowa, most of the tiling has been done. At times, people had money to spend on that sort of thing. It is a long-term investment, and if we are being told here that you are violating the law just because one year you have a drought and you do not have the resources to do what the Government says you ought to do so you lay low for a year before you want to spend the money, I am not questioning that you are answering in good faith. I am just questioning whether or not we, as a Congress, in passing that law used very good common sense when we established a law that he says he is enforcing in this particular way.

I just raise that as a point. I do not expect you to have a comment, but I hope you will think about it.

You do not see that you are going to change that? What you just told me is what you have to do?

Mr. **Bjerke**. That is right. As I understand it, the objective of swampbuster is not to drain the swamp, and the only reason that you would continue to drain is if you had a project in place before December 1985 that had commenced and due progress had been made. If those criteria have not been met, then we do not get very friendly to installing new tile.

Senator **Grassley**. Part of what you said I have no disagreement with. You said the purpose of this law is not to drain the swamp. I find no fault with that. The law, as I have said before to my colleagues but not to you specifically, I think is a pretty good law. I think that the regulations are probably pretty good regulations, but I think we get into some of these things that do not fit into common sense and are creating problems.

I think that whether or not a farmer has money to do something you say he ought to do on a timely basis is something about it. In other words, I am saying this to you. If because of a drought a farmer does not have money and he cannot borrow money to spend on a certain amount of tiling in the year you say he is supposed to tile but he tiles next year but he does not drain 1 more inch of land than he otherwise under the law could drain, I think we ought to take that into consideration.

If giving him another year allows him to drain land that should not be drained, then you should not do that. Whether or not there is a good faith effort being shown to do something along that line—I know why I voted for swampbuster. That is for the very reason you expressed.

Mr. **Bjerke**. I understand, Senator, that prior converted wetlands that are classified by the Soil Conservation Service can continue to operate on into the future. It is only the land that has not been converted prior to December 1985, you see, that we are talking about. So he can go ahead and fix his tile, he can change his tile, he can do what he needs to on a prior conversion.

Senator **Grassley**. See, you are going back there to some period of time before December 1985 when the farmer probably had one tile line in and did not have the money to complete the rest of it. If he had intended to drain that and the lack of resources was the reason he did not do it, then he should not be stopped from doing that.

If his purpose is to drain land that would otherwise not have been drained, then he should not do that.

Mr. **Bjerke**. The problem gets to be, Senator, that you have a very difficult time determining when resources are adequate and when they are not. Does two-thirds of a drought mean that he can then have two-thirds relief?

Senator **Grassley**. If the guy has no money in the bank and he cannot borrow money, I would say for a capital investment like this he should not borrow. I do not think it is good.

Mr. **Bjerke**. How about if he had money to buy a pickup instead of doing the drainage?

Senator **Grassley**. Then I would say that that determination has to be made by people locally. I think you have foreclosed him from making that determination.

Mr. **Bjerke**. We have now, yes, sir.

Senator **Grassley**. I do not think you should do that, because, really, what you are saying, the lack of funds for conservation measures beyond the farmer's control is the reason for stopping that. I am talking about whether it is in the farmer's control or not.

I think that you have to have faith in the system here. The farmer committees that have dominated ASCS for 50 or 60 years have been a pretty good system for making these determinations. Now we are having some environmental groups throw around whether or not these farmer committees ought to be making these determinations.

I think if you raise that point, I think you have to raise the point that maybe the whole thing ought to be thrown out the window. I do not believe that, myself. I believe it has been a pretty good system.

Mr. **Bjerke**. I agree.

Senator **Grassley**. If you do not mow your weeds on your set-aside acres, those same people are not afraid to fine a farmer in that county. Now why can they not make the same determination if the swampbuster law is not being violated?

Do you think this ought to be maintained at the county level to make these decisions?

Mr. **Bjerke**. Without question. The problem is that with 2,800 county committees in place they have to have a certain amount of guidance to be able to make those decisions.

We have tried very clearly to outline what we feel are fair and reasonable guidelines in areas of concern. You have identified very clearly that many people are looking at these decisions and are questioning whether or not the county committees have the strength of heart to make them. I agree that they do have the strength of heart but only with a certain amount of regulation to follow. Defining undue financial hardship is very hard. It is very difficult to determine whether or not there were other priorities involved, and leaving it too open creates more questions.

Senator **Grassley**. In my State we had 120,000 farming units in 1980 and in 1989 we have 105,000 farming units, and we had most of those people go under in 1983, 1984, 1985, and 1986 because of drought and depression. I do not care whether or not you are an environmentalist. If you cannot be kindhearted and sensitive enough to take those things into consideration you are not much of a human being. I do not mean you. I mean generically speaking.

It seems to me that you have to take those things into consideration. I hope that the Congress will clarify some of these things if you cannot clarify them. I would rather have you clarify them.

Mr. **Bjerke**. We will do everything we can to work with the Congress to make this whole process simpler.

Senator **Grassley**. Has either the ASCS or the SCS reviewed section 404 of the Water Quality Act of 1974 to determine how this might apply to agricultural lands?

Mr. **Bjerke**. I would rather defer to the Soil Conservation Service, but I would make one point. We have found now that we have certain producers that are eligible under swampbuster regulations to make modifications to their land only to be stopped by section 404 regulations. So there is an overlap.

Senator **Grassley**. Can that only be solved in the courts?

In other words, are you saying there is conflict between two departments?

Mr. **Bjerke**. There are joint regulations.

CORP'S 404 PERMITTING OF AGRICULTURAL WETLANDS

Senator **Grassley**. If there is a dispute, how is it settled; in the court?

Mr. **Bjerke**. Probably. I do not know.

Senator **Grassley**. Would you like to answer that?

Mr. **Scaling**. I do not know if I can answer that. The adoption of the four-agency wetland identification procedures manual, signed a little over 1 year ago now, brought cropland that has hydric soil or, rather, prior converted cropland under the 404 permitting process.

I still think jurisdictional differences concerning wetlands can be worked out, but right now we have a little problem. Adoption of the specifications contained in the manual brought all hydric soil under the 404 permitting process, even though prior converted cropland was exempt from swampbuster under USDA regulations.

Senator **Grassley**. Let us hope you can work it out. You have a lot of Members of this Senate who are meaner than I who are concerned and more worked up about this.

Mr. **Scaling**. Yes, sir.

EMERGENCY CONSERVATION PROGRAM

Senator **Grassley**. What is the current status of the Emergency Conservation Program funds for livestock water cost sharing?

Mr. **Bjerke**. We are currently broke in the Emergency Conservation Program. As I told Senator Burdick, as of this morning we are short some $15 million, and we are hopeful that even this week we will provide the list of unfunded needs to the Senators and members of this committee and work for a resolution of it.

COMMERCIAL STORAGE COSTS

Senator **Grassley**. OK. Since Senator Burdick covered that, then I will go on to something else.

What steps are the ASCS currently taking to minimize commercial storage costs?

Mr. **Bjerke**. We have what is called a bid and acceptance system. In fact, we are just this week concluding the publishing of the accepted storage rates for the next year on commercial warehouses. They offer us a bid for storage. We take a look at these bids and negotiate on a case-by-case basis as necessary. Outside of States such as my own that have actually mandated in law the minimum storage rate, most States then have a variance of rates that are accepted or rejected by the Commodity Credit Corporation.

Senator **Grassley**. Are States such as my State of Iowa that have lower commercial storage rates than surrounding States being penalized by having to contribute a greater share of the stocks that are currently being listed in the catalog?

Mr. **Bjerke**. No, sir; we try to list grain stocks rather consistently and uniformly throughout the States so that the access to those stocks is available nationwide. That is done on a State-by-State basis, starting with the higher storage rates and applying the same criteria and percentages in each State.

HAYING AND GRAZING OF ACR LANDS

Senator **Grassley**. Our current ACR program allows the use of these set-aside lands for haying and grazing only in times of disaster. In the past couple of years I have advocated setting up a system where a producer would be able to purchase the right to hay and graze these acres regardless of disaster conditions.

Would you support such a program?

Let me say what it is based on. It is based on a proposition where I rent you 10 percent of my corn base for 1 year. The Government controls it just like the Government controls land in the Western States that is used for grazing.

I would like the farmers of Iowa to have the same right to do business with the Federal Government in the use of that land as western cattle people do, maybe even for the same rights.

Mr. **Bjerke**. It is an interesting concept that I have been unaware of before this hearing. The opposition to that would come, I feel, from the commercial hay industry, which believes that they would be unduly jeopardized by cheaper produce on the market which would take away some of their market share.

We also have some folks in the stockman's groups who feel that increasing the access to hay stocks is not going to be of benefit to their industry.

Senator **Grassley**. If we had a systematic approach such as I am suggesting, the end result would be nowhere worse than what we have been doing the last 2 or 3 years as far as commercial hay production is concerned because at least it would be predictable and at least you could collect something from it.

Mr. **Bjerke**. Both are true.

Senator **Grassley**. Could you at a later point in time provide me with an estimate as to how much money could be saved by implementing such a program?

Mr. **Bjerke**. I would be glad to do that.

[The information follows:]

Haying and Grazing

You have advocated setting up a system whereby a producer would be able to purchase the right to hay and graze on acres idled under our annual programs. As you know, producers may hay and graze this land during a selected 7-month period at no cost if the State ASC Committee determines there would be no adverse economic impact. Producers may be granted the right to hay and graze year-round if a disaster exists.

The Bureau of Land Management—BLM—authorizes livestock grazing on about 165 million acres of public land. Some 4.3 million livestock graze on public land annually. Grazing fees are currently established under specific requirements of an Executive Order. In prior years, they were set in law. The BLM has no control over the fee level. The fee formula has an ability-to-pay component and takes into account private land lease rates, beef cattle prices and costs of production. The minimum fee is $1.35 per animal unit month of grazing. The fee is currently $1.81, a drop from $1.86 the previous year and the first decline in 3 years.

Half of the grazing fees is kept by BLM and half is distributed back to the district where it was collected. The funds are used for rehabilitation, protection and improvement of the range including engineering and construction of projects such as water development and fencing. Most of the project work is contracted out, although some is done by BLM.

In contrast to the 165 million acres of public land grazed under the BLM programs, our annual programs are likely to idle about 20 million acres annually. The fees collected by such a program would be quite small in comparison and would depend upon the public acceptance of such a program, the type of grazing animal and the conditions of the pastures. The administrative costs would more than offset the fees collected.

LOAN RATES

Senator **Grassley**. Mr. Crowder, your statement references the cuts proposed by President Bush's budget and gives us some broad guidelines as to where to cut these funds. You mentioned possibly meeting these cuts with target price reductions or more restrictive payment limitations. Congress is beginning to debate the appropriate level of target prices, but I would like your impression as to how the loan rate will affect the Government's budget exposure or other program goals.

Mr. **Crowder**. Well, I do not know what will come out of either the House or the Senate Agriculture Committee on the final bill, but if you look at our proposal in terms of loan rates, we propose that the loan rates continue to be in the range of 75 to 85 percent of the 5-year moving average of the previous year's market price. We would not like to see those loan rates raised in an attempt to reduce the budget, if you will, by closing the gap because of the damage it would do to us in the world market and the signal it will send to our competitors to start expanding their production and go back to reducing our market share as we saw in the early 1980's.

AGRICULTURE TRADE AND PRODUCER GROUPS

Senator **Grassley**. Mr. Anderson, would you share with me the list of the 54 agriculture trade and producer groups, private companies and State Departments of Agriculture mentioned in your testimony?

Mr. ANDERSON. Yes, sir; I will submit those for the record.

Senator GRASSLEY. Thank you.

[The information follows:]

I will provide for the record a list of all organizations that FAS jointly works with to promote U.S. agricultural exports.

[The information follows:]

American Seed Trade Association
Cotton Council International
Tobacco Associates, Inc.
American Soybean Association
National Cottonseed Products
National Peanut Council
National Sunflower Association
American Horticultural Marketing
California Avocado Commission
California Cling Peach Advisory
California Kiwifruit Commission
California Pistachio Commission
California Prune Board
California Raisin Advisory
California Strawberry Advisory Board
California Table Grape Commission
California Tree Fruit Agreement
California Walnut Commission
Cherry Marketing Institute
Concord Grape Association
Florida Department of Citrus
Hop Growers of America
National Honey Board
National Potato Promotion Board
Northwest Horticultural Council
Papaya Administrative Committee
Texas Produce Export Council
Western Growers Association
Wine Institute
Miller National Federation
National Dry Bean Council
National Hay Association
Protein Grain Products International
Rice Council
USA Dry Pea and Lentil Council
U.S. Feed Grains Council
U.S. Wheat Associates
Alaska Seafood Marketing Institute
American Embryo Transfer Association
American Quarter Horse Association
American Sheep Industry Association
Appaloosa Horse Club
Leather Industries of America
Livestock Exporters Association
Mohair Council of America
National Association of Animal Breeders
National Association of Swine Records
National Renders Association
Purebred Dairy Cattle Association
USA Poultry & Egg Export Council
U.S. Beef Breeds Council
U.S. Hides, Skin and Leather
U.S. Meat Export Federation
U.S. Mink Export Development

American Plywood Association
National Forest Products Association
Chocolate Manufacturers Association
Eastern U.S. Agricultural Export Council
Kentucky Distillers' Association
Mid-America International Agri-Trade Council
National Assoc. of State Depart. of Agriculture
National Pasta Association
Southern U.S. Trade Association
Western U.S. Trade Association
Blue Diamond Growers
Cal-Almond
California Independent Almond Growers
Dole Nut Company
Golden West Nut
Hansa-Pacific
Mariani Nut Company
Nicolaysen Farms
Saulsbury Orchard & Almond Processing
S.M Warda Company
Cecelia Orchards Packing Corp.
DiMare Company
Dole Fresh Fruit Company
Pandol Brother
Riverbend International
Sequoia Enterprises
Sunkist Growers
Sun Pacific Shippers
Sun World
Tri Citrus Company
Ocean Spray Cranberries
The Nunes Company
Del Monte Food
Friday Canning Corporation
Monarch International
Nestle, Libby Division
Norpac Food Sales
The Pillsbury Company

FAS STAFF LEVELS

Senator GRASSLEY. Also, I want to say, Mr. Anderson, I applaud your increase included in this year's budget for the expansion of our overseas staff. I am still concerned, however, that the FAS is short staffed both domestically and overseas.

Do you feel that you have adequate personnel to manage programs currently within your jurisdiction?

Mr. ANDERSON. Yes, sir; as you know, the 1985 farm bill mandated about 12 new or expanded programs which became the responsibility of FAS, and we have had some staffing problems in relation to that. We have been criticized some by the OIG and the GAO concerning those management problems.

Our staff levels actually are down about 4 or 5 percent from where they were at the beginning of the 1980's. We do have in this budget an increase of about 8 staff-years that will help us. I think this is a good budget from FAS' point of view. I think we can do the job with the staff-years proposed.

VALUE ADDED PRODUCTS

Senator **Grassley**. This is my last question. I think that before I got here Senator Burdick questioned you about the emphasis that the Department is putting on value added products or the lack of emphasis. I am, of course, looking forward to the Department's report that is coming out next week. I do appreciate what the Department is doing. The total number indicates that you need to do more, however.

For instance, I think you have observed that the European Community recently reinstituted a 450-percent subsidy on pork products shipped to Japan. The 1985 farm bill contains a directive that 15 percent of all Export Enhancement Program sales should be livestock or poultry products.

It is my understanding that the Department is not meeting this target, yet you have also refused to take any steps to counter the EC subsidy. Based upon this action, of course, I want to publicly question the Department's commitment to moving value added products.

So simply, why are we not responding to these EC subsidies?

Mr. **Anderson**. Well, we are trying to respond to the European Community on a product-by-product basis. As you know, most of the export subsidization under our enhancement program is going into wheat and flour, but we do have some poultry products, particularly eggs, moving into the Middle East and Hong Kong.

As far as the Japanese market is concerned, it is a growing market for our pork. The Community has recently increased its subsidies into Japan, they are at higher levels than that a year ago. The Community had a supply problem in the EC relative to pork. Supplies were down. Production was down. They reduced their export subsidies at that point but have gone back to reinstituting them at higher levels.

We feel that our trade, particularly in pork products with Japan, is doing very well without subsidies, and we do not see the need to counter the EC there with EEP.

Regarding other value added products in the mix of products that we do under the Export Enhancement Program, we are continuing to look at all products in terms of applicability to that program. However, we get concerned when the export subsidy levels on some of those products are excessive or run 50, 60, 70 percent of the value of the product in order to move it.

We have to evaluate that on a case-by-case basis, and that is what we are doing.

Senator **Grassley**. That is my last question. In closing I would simply say by way of reaction it seems to me that when we were in negotiations where we are trying to get as much out of GATT as we can, it would be a very strategic move for the United States to very vigorously counteract these attempts at subsidy, particularly against the European Community, and, instead of spending half of the EEP money, to spend it all. That is why we appropriated it.

Until we win this war, free trade is our policy, and we ought to put our full muscle behind accomplishing that goal.

Thank you, Mr. Chairman.

Senator **Burdick**. On Wisconsin.

Senator **Kasten**. Mr. Chairman, thank you. First, I will ask unanimous consent to put an opening statement in the record at the appropriate place.

[The statement follows:]

Statement of Senator Kasten

Thank you, Mr. Chairman.

I am pleased to have the opportunity today to discuss the Department of Agriculture's budget for International Affairs and Commodity Programs. The programs that are overseen by Under Secretary Crowder, the Agricultural Stabilization and Conservation Service [ASCS], the Foreign Agricultural Service and the Soil Conservation Service [SCS], are important to keeping American agriculture competitive both at home and abroad. Furthermore, the ASCS and the SCS are central to the protection of our nation's environment.

The President's budget reflects his support of American agriculture and his desire to protect our nation's natural resources. In general, I feel that the President's budget will allow us to continue to successfully pursue our international agricultural policy and our domestic environmental goals.

I look forward to today's testimony, and to asking some questions regarding wetlands protection policies and dairy support prices. I hope we can work together in these important areas of policy.

WETLAND CONVERSION

Senator **Kasten**. Mr. Scaling, data collected by the Soil Conservation Service through January 1990 shows that 82,586 acres of wetlands have been converted since 1985 on about 33 percent of producers' farms participating in Federal programs.

Is that correct?

Mr. **Scaling**. I am going to let Mack Gray answer that question, since it comes within his expertise.

Senator **Kasten**. It is your data. I am just trying to establish a line of questions here.

Dr. **Gray**. Senator, we have reports from our field offices and our State offices that display the amount of land that has been identified as converted wetlands. Our results show that wetland converted for whatever purpose—it may have been planted to an agricultural commodity, it may have had a barn built on it or whatever—over a total of 4 years—1986, 1987, 1988, and 1989—is 82,586 acres.

WETLAND INVENTORIES AND DETERMINATIONS

Senator **Kasten**. You were only able to collect data on roughly one-third of producers' farms participating in Federal programs; is that right?

Dr. **Gray**. That is correct, 30 to 35 percent.

Senator **Kasten**. Why is that? Are you going to pick up another one-third? Are you moving geographically, or how are you getting at this one-third?

Dr. **Gray**. Mainly, we started wetland mapping in the areas where we had the greatest concentration of wetlands and the most concern and problems with implementation. We are moving our wetland identification efforts out to the rest of the country. We hope to get to the rest of the country and have identifications made by the end of 1991.

INTERPOLATION OF WETLAND DATA

Senator **Kasten**. Let me ask you a question, because I have been doing this in speeches and meetings. Would it be, in your view, correct to essentially interpolate this data and say you have taken one-third of the farms and with one-third that you have found you have 82,000 acres, so I could multiply 82,000 by 3 in order to say what it probably would be for the country if you counted, or are these more severe in these kinds of areas and there would be more wetlands involved than the ones you have counted?

Dr. **Gray**. There would be more wetlands involved than the ones we have counted. We made a conscious effort to start our mapping first in the areas that had the greatest concentration of wetlands.

For example, the first block mapping we did was in the areas of North Dakota where there was so much concern about swampbuster and great concern on the farmers' part as to knowing whether a certain tract of land would be covered by the wetland provisions of FSA or not. We made a conscious effort to start in the areas with the concentration of wetlands, so you could not interpolate the existing wetland data directly.

Senator **Kasten**. If you could, maybe the two of you could come up to the Hill some day and work with me and our staff people in terms of just making our best estimate. We are all trying to do this right. We all know we have major problems out there. If we could start to think through where you have been and where you have mapped and what you guess the numbers to be as you stretch them out, that would be helpful to me. I am basically right now taking it and multiplying it by 3.

Mr. **Scaling**. We will be there at your convenience.

Senator **Kasten**. Mr. Bjerke, ASCS records indicate that Federal benefits withheld to date for swampbuster violations involve 760 acres of converted wetlands. Is that correct?

Mr. **Bjerke**. That is correct.

Senator **Kasten**. So if we understand these numbers, there are 82,586 acres of wetlands lost, and this represents one-third of the total with violations cited on only 760 acres, that means that according to your own records, USDA records, less than one-third of 1 percent of wetlands conversions are subject to swampbuster sanctions.

Mr. Bjerke, is that a fair conclusion?

Mr. **Bjerke**. Yes, sir.

ADMINISTRATION OF SWAMPBUSTER

Senator **Kasten**. Where do we go, Mr. Scaling, from there? We have just gone through that. We have less than one-third of 1 percent of wetlands conversions subject to swampbuster sanctions. What does that mean in terms of the way that you are administering this program?

Mr. **Scaling**. Senator, I firmly believe that farmers just are not draining wetlands. I know we hear a lot about farmers draining wetlands, but anytime we ask for the name or the latitude and longitude, nobody ever comes forward with any information.

If we can ever find out who is converting or who is planning to drain wetland we will certainly go and check it out. So far, the few that we have checked out just either are not there or they have already been denied approval by ASCS.

Senator **Kasten**. When you look at 82,000 and you go to 760, in effect, that would be one-third of 1 percent. That would be like trying to run the Soil Conservation Service on $2.2 million. That is one-third of 1 percent of your budget.

Mr. **Scaling**. Again, Senator, as Dr. Gray stated previously, we do not know what percentage of the 82,000 acres had anything planted on it prior to conversion.

CHANGING THE WETLAND PROVISIONS IN THE 1990 FARM BILL

Senator **Kasten**. What changes in swampbuster would bring either a better understanding of what was there before or other kinds of changes with regard to the conversion so that we can get at this problem with regard to the constant kind of back and forth between the environmental concerns and the conservation and hunting concerns on the one hand and the concerns of USDA on the other?

Mr. **Scaling**. I am going to let Dr. Gray answer that.

Senator **Kasten**. Let me go through one more paragraph, and then you can go through the whole thing.

I noted with interest that the administration farm bill proposal included no recommendations at all for the wetlands conversion provision, the swampbuster. That cannot mean that the program is working to your satisfaction, or does it mean that you like it just the way it is? You made no recommendations for changes.

Dr. **Gray**. I believe, Senator, that would be an indication that we believe the present wetland provisions are working fairly well. We have not at this point in time had a chance in the Department to assess all the proposed changes. I do not know what the Department's position would be on some of those proposals, but we feel the program is working pretty well and, therefore, we proposed no major changes in it.

Senator **Kasten**. I have one final question, Mr. Bjerke.

Senator **Burdick**. Would you put your title down for the record?

Mr. **Scaling**. Dr. Roy M. Gray, Special Assistant to the Chief for Strategic Planning and Budget Analysis.

MILK SUPPORT PRICE

Senator **Kasten**. One final question on a different subject, Mr. Bjerke. A number of dairy economists have recommended that the manner of determining milk surplus be reformed in order to accurately reflect a fair support price. One recommendation is to base it on total solids basis, which would include milk fat. A second idea is to base it on an average of buttermilk fat and nonfat solids.

It is clear that the manner of basing the milk surplus solely on milk fat purchases is inaccurate and needs to be rethought. What do you think of these suggested reforms, and what steps can you take to more fairly reflect the milk surplus in determining the support price?

Mr. **Bjerke**. Currently, Senator, as you are well aware, we have no milk surplus. In fact, we have a very good supply and demand balance right now in the milk area. Many proposals have been talked about. Some refer to it as the fat tax or other areas of consideration.

Certainly, the nonfat dry milk issue is going to be fully debated, and we are studying the alternatives and bringing the numbers forward on almost a daily basis.

We would like to be a part of the process, and however you direct us to go from here would be fine.

Senator **Kasten**. The reason I was asking, last year the CCC reported a 9-billion-pound surplus of milk. Had this been reflected on a solids basis and not on a milk-fat basis, however, it would have been 3 billion pounds.

I am not so concerned about whether we are in a surplus situation or a deficit situation or if right now we are producing for the market, which is what all of us would like to do. My question deals with the difference in accounting, the 9-billion-pound surplus in milk.

Had this been reflected on a solids basis rather than a milk-fat basis, it would have been 3 billion pounds. The 3 billion pounds would not have triggered the 50-cent-per-hundredweight cut.

Mr. **Crowder**. Let me respond briefly to that, Senator. The primary issue as far as we are concerned is the relationship between the support price for butter and nonfat dry milk. If the support price for nonfat dry milk were increased in relation to butter, which is a process we have begun and will continue so that the support prices will reflect the market conditions—we have had the butter support price too high, and we do have CCC now accumulating butter stocks, which, as you know, we are trying to export.

The issue of measuring or supporting milk on a total solids basis versus a fats basis is not as straightforward as it seems because there are different ways of calculating and defining solids. We propose to continue it as it is with a continued realignment in the levels of support for butter and nonfat dry milk.

Senator **Kasten**. I appreciate your response, but if the support price is to be based on CCC purchases, then it ought to reflect, I think, what CCC is buying. Right now, that is butter and not milk.

Mr. **Crowder**. That is right. What that says is that the reason CCC is buying butter instead of milk is that the support price for butter is too high and will not clear the market, and we are not getting enough of the other produced. Once we get the butter support price aligned with the other components of milk, then we will hopefully have that problem solved.

The issue now is that butter price supports are just too high in relation to the market, and as in any commodity, be it wheat, corn, or whatever, if the loan rate is above the market CCC takes it over, and that is what we have been doing in the case of butter.

Senator **Kasten**. Mr. Chairman, I have other questions to submit for the record. Thank you very much.

Senator **Burdick**. The Senator from Idaho.

Senator **McClure**. Thank you very much. I have a commitment downtown, and I will have to leave very quickly. So I will be necessarily and uncharacteristically brief.

I do want to do something, Mr. Bjerke, that may surprise you a little. I want to express my thanks to one of your employees who, I believe, took personal initiative and interest in an ASCS appeals case and resolved it in a fair manner.

Mr. Dan Shaw of DASCO on short notice agreed to hear an appeal of the case of Roger and Patty Reid of Idaho. This farming couple had appealed an unfavorable ASCS decision on whether they were eligible for disaster assistance in 1988. I will not go into the details, but I do want to thank Mr. Shaw for listening to their case and moving very quickly on the case. My faith in DASCO is almost restored.

I thank you and your staff for the assistance that you may have given in that case.

I will not go into detail, but I am concerned about the TEA Program and whether or not it is possible to give the small operators a little bit of relief on the administrative costs of that program. Just a little bit of assignment of moneys would help them make it more effective from their perspective. I will not go into that in detail.

I have a great deal of concern on the matter of the tariff rate quota now being pushed by the USTR's office as a solution to the unfavorable GATT panel report on the headnote authority of the U.S. tariff schedules as it pertains to sugar. I have been told that the analysis of the various alternatives was completed by the Office of the Under Secretary of International Affairs and Commodity Programs.

I would like for either Mr. Crowder or Mr. Anderson of the Foreign Agricultural Service to make this analysis available to me within a week. That matter is going to be coming up on the floor of the Senate in one form or the other, and I would like to have whatever analysis there is upon which you made those statements.

May I have your assurance that you will make that available to us?

Mr. **Crowder**. We will do that, Senator McClure.

[**Clerk's Note.**—Requested information shown in response to Senator McClure's question submitted for the record entitled "Tariff Rate Quota."]

Senator **McClure**. Thank you very much.

Thank you, Mr. Chairman. I have a lengthy list of questions which I would ask be included in the record in full.

Senator **Burdick**. We will now turn to the State of Mississippi.

Senator **Cochran**. Thank you very much, Mr. Chairman. Let me join you in welcoming this panel of witnesses. We appreciate your being here and your cooperation with our committee.

I have some questions that I, too, am going to submit to you for the record. I know you have been here quite awhile answering questions from the members of the subcommittee this morning. I have some questions of the Soil Conservation Service on the issue of wetlands. I know that has been touched on this morning. Rather than duplicate all that and in the interest of dealing with these issues expeditiously, I am going to submit questions which I hope, Mr. Scaling or Mr. Crowder can answer for the record. I thank you for that.

I know that the Soil Conservation Service had a deadline date of December 31, 1989, for the approval of conservation plans for agriculture producers around the country. During the next 5 years, producers are going to be required to implement these conservation plans again with the assistance and guidance of Soil Conservation Service personnel.

There has been some concern expressed in my area by soil and water conservation districts, among others, that the SCS workload involved in servicing these plans on 134 million acres will be expecting too much of the Soil Conservation Service, given present resources.

Would you comment for us, if you can, about these concerns?

Mr. SCALING. We are stretched pretty thin, Senator.

Senator COCHRAN. I know you have a budget that requested a certain level of funding for staff. Is the amount requested in the budget this year going to be sufficient to enable you to deal with the requirements of the 1985 farm bill?

Mr. SCALING. Yes, sir.

Senator COCHRAN. If we wanted to try to deal with this problem more effectively in our budget, is there any suggestion that you could make for areas where we could consider getting some more attention?

Mr. SCALING. Senator, we can always use any help that you all might be able to see fit to give us.

CONSERVATION RESERVE PROGRAM SIGNUP

Senator COCHRAN. I know ASCS administers the Conservation Reserve Program. The budget allows up to 40 million acres to be enrolled in the CRP through fiscal year 1991. In your submission to the committee you mentioned that enrollment has reached 34 million acres.

Do you plan to announce a signup this year? If so, what can you tell us about it?

Mr. BJERKE. Well, sir, as you know from our recommendation in the administration's farm bill proposal, we have requested that Congress allow us to take the 6 million acres remaining and put that into the 1990 farm bill. If that recommendation is not approved, why, we will certainly have a signup and comply with the 1985 act.

Senator COCHRAN. The Agriculture Committee began marking up the farm bill today. That is one reason why I was late this morning; I have been over there on the first day of markup of the 1990 farm bill. The CRP is a matter that will be taken up in the farm bill, but there is no assurance that the Congress will approve a farm bill this year. We may not be able to get it done. If not, we might have to extend the provisions of the 1985 bill for another year.

Whatever happens if the provisions of the 1985 bill still apply to 1991? I would hope that you would not wait around. You would end up losing a year if you wait around and miss the guess that the 1990 farm bill will be completed, signed, and implemented.

Mr. **Bjerke**. We intend to carry out the 1985 act until it is changed.

Senator **Cochran**. The budget is a request on which you intend to follow through?

Mr. **Bjerke**. Yes, sir.

FORESTRY INCENTIVES PROGRAM

Senator **Cochran**. The Forestry Incentives Program has been a very helpful way to encourage the planting of trees in our part of the country. You mention in your statement that FIP is to complement the America the Beautiful initiative which the Forest Service will administer.

Is there a request to expand the Forestry Incentives Program?

Mr. **Bjerke**. Yes, sir; it is in our budget. You will notice, however, there is also $175 million in the America the Beautiful budget that would actually act as a supplemental. There will be a very close working relationship between the Forest Service, ASCS, and the Soil Conservation Service on this project.

COLORADO RIVER BASIN SALINITY CONTROL PROGRAM

Senator **Cochran**. I notice in your budget, too, that you have a substantial increase for the Colorado River Basin. There is level funding for the Forestry Incentives Program. There is a decrease in funding requested for the Water Bank. There is a decrease in requested funding for the Agricultural Conservation Program.

Why is there such a substantial increase for the Colorado River Basin—from $10,341,000 to $14,783,000?

Mr. **Bjerke**. Even with this increase we still will not be on the projected completion schedule of this program. The requested level of funding would prevent us from falling farther behind than we already are. We would like to make a substantial commitment to that program and make sure that it does not slip further. We are trying to get back to a closer proximity to the implementation schedule.

Senator **Cochran**. Help me to remember what that program is and why it is so important.

Mr. **Bjerke**. It has to do with a treaty with Mexico on the amount of salt water we are depositing in their country. This is an operation whereby we control the amount of salt that irrigated agriculture loads into the Colorado River and that ends up with our neighbors to the south. We are doing some very exciting work in these project areas by preventing runoff, deep percolation, and seepage.

The projections are that if we do not have to build a major filtration plant, we will save many, many millions of dollars doing it by this process.

Senator **Cochran**. Are there any programs similar to that where you are trying to deal with salinity conditions in the soil caused by other activities such as oil and gas production in the Southeast?

Mr. **Bjerke**. We have, you know, several hydrologic unit projects going on, demonstration units around the Nation that are dealing with water quality directly, and salinity is part of that process. The highest profile salinity program that we have is in the Colorado

Basin. All the water quality activities we are involved in relate to agricultural operations

Senator COCHRAN. When was that program authorized?

Mr. BJERKE. It was authorized as a separate program in 1984 and first funded separately in 1987.

FAS COOPERATOR PROGRAM

Senator COCHRAN. The Foreign Agricultural Service has always impressed me with the quality of work that is done to try and enlarge markets and help stimulate exports. I am glad to see we have a small increase requested in the funding for that agency.

Do we still use the cooperator program and get private sector funds that are basically used to help enhance sales and establish new markets? Is that program continuing to work as it has in the past?

Mr. ANDERSON. Yes, Senator; it has continued to work over the years. We have some 55 different cooperator organizations participating in the program. It has expanded some with the Targeted Export Assistance Program that was authorized in the 1985 farm bill. We are working very closely with the cooperator groups and the export picture for this year looks quite good. It looks like we will be close to the $40 billion mark again. I think our trade will be up about 2 to 3 million metric tons to the 147- to 148-million-ton level.

Senator COCHRAN. We got into quite a discussion over in the Agriculture Committee this morning about the difference in the Targeted Export Assistance Program and the Export Enhancement Program and how the two are used to help deal with trade problems that exist around the country, particularly in the European Community and elsewhere.

The TEA Program, of course, was created in the 1985 farm bill. Would you say it has been successful in helping us to deal with some unfair trade practices around the world?

Mr. ANDERSON. Yes, Senator; I think it has been tremendously successful. It came at a time when we were not very competitive overseas with our agricultural trade. If you remember, agricultural exports hit a low of about $26 billion in 1986. We have rebounded from that, and I think the Targeted Export Assistance Program has been very effective.

I spent the last 6 years overseas prior to coming back to this job a year ago, and I saw it operating in Europe. I think it has been effective in terms of promotion. It has given us the wherewithal to go in and do some first-class promotional efforts on our high-valued products in particular. About two-thirds of the program is directed at the high-value products.

Senator COCHRAN. One other issue that I raised this morning was the question of whether or not the Agriculture Committee should mandate the expenditure of a certain level of funds for the Sunflower and Cottonseed Oil Program that is provided for under previous appropriations bills. As a matter of fact, Congress mandated the use of section 32 funds in 1989, 1990, and 1991 to purchase cottonseed and sunflower oil to help with additional sales in world markets.

Apparently there have been no sales of cottonseed oil approved utilizing this program. Why is that?

Mr. **Anderson**. I will make a comment and then turn it over to Mr. Paul Dickerson, our General Sales Manager, who will have some additional comments.

The markets for the cottonseed oil and the sunflower oil products continue to be very limited. This is one of the problems. We are trying not to undercut world market prices with export bonuses that we do on those programs. With limited markets and with the criteria to not undercut world market prices, we found that the market opportunities are not that great.

Mr. Dickerson could comment further on that.

Mr. **Dickerson**. To add to what Mr. Anderson has said, the primary competition really for those two commodities has been Argentina, in the case of sunflower oil, and cottonseed with Brazil. The program has been administered in such a way that we are attempting to compete with the unfair trade practices, as we view them, coming out of the EC, not Latin America.

The market for cottonseed oil is very limited. It has focused basically upon Egypt and Algeria. It has been very difficult to develop an ongoing and continuing market there where this program would be applicable.

As I understand, over the history of the whole program there have been 60,000 tons which have been accessed, all of which have been sun oil, total value of almost $33 million and at a cost to CCC of about $9 million.

The primary problem has been a limited market for the commodities, only two countries in North Africa, Algeria and Egypt, and the competition which we are attempting to go up against is coming from Brazil and Argentina.

Senator **Cochran**. I may not be remembering this correctly, but, as I understood it, Congress was explicit in its use of language in the appropriations bills. When there is disagreement over whether or not a program has efficacy or should be carried out, there are some options that the executive branch has, one of which is to request a rescission of those funds or a deferral. If the rescission is not approved, then the administration under current law is bound to spend the money for which it has been appropriated.

I wonder if we have run into one of those confrontations that led the Agriculture Committee this morning to consider adopting language that would direct the Department of Agriculture to spend $50 million under the provisions of this program over the period of the new farm bill?

I objected to that language being included in the bill. One of the reasons for my objection was that it was a jurisdictional prerogative of the Appropriations Committee to direct that a certain level of funding be spent.

Another concern I had was whether or not there was another way to deal with the issue, and that is why I am exploring that with you this morning.

Does the administration disagree with the appropriation to the extent that it is just simply not going to spend it no matter what? If that is the situation, then I think other options ought to be explored by this committee. If we, for instance, decide to appropriate money for any other program and you decide that it is not a good idea and you are not going to spend it, what are we sitting here for? Why are we going through this drill of reviewing your budget and appropriating money if you are just going to disregard the appropriations bill? That is my question.

Mr. **Crowder**. Let me try to respond to that, Senator.

First of all, I would not like to define the situation as one of confrontation.

There are two points I would like to make in this. First, when appropriations enacted by Congress mandate a particular level of expenditure for us to administer, it presumes (*a*) that there is a market for those expenditures, and (*b*) that it would be your intent that those funds would be spent in an efficient type of manner.

Senator **Burdick**. Could you bring your mike closer?

Mr. **Crowder**. I am sorry.

First of all, we did not intend to be confrontational at all and would not like to have a confrontational situation.

Two, when a specific level is mandated my assumption would be that you would want to assume that there is a market there that we could spend the money in an efficient way. It is not that we have not wanted to spend the money. It is just that there are two issues: (*a*) a lack of markets, a broad-based market for these products; and (*b*) from a trade standpoint, as Paul Dickerson indicated, we have been targeting the European Community and not the Southern Hemisphere.

It has just been a very difficult situation for us. Now perhaps we should have consulted more and kept you better informed, but we are not seeking confrontation, and we do not like to have a situation where we force something into a market that causes us a lot of problems elsewhere or to spend money in an unfortunate way. We have had some situations where that has happened historically in some of our programs. We received quite a bit of criticism from the OIG and GAO, for example, in the dairy cow EEP programs of some years ago where the bonus was more than the value of the cow.

So it puts us in an awkward situation, too. We are not trying to be arbitrary or anything else, but we are trying to be responsible in terms of the way we spend the money.

Senator **Cochran**. I hope we can consult on this issue so that we can work out some satisfactory arrangement for the use of those funds. If you are not going to use them there, maybe we can use them in some other way that will be advantageous to America's agriculture sector.

To just simply say, this is not a good idea; we do not think those guys on the committee knew what they were doing when they put this money or language in there, so we are not going to do it. I think we need to have a better understanding of the responsibilities that the administration has. It should at least raise these issues as they come up with those who are responsible for answering to their constituents as to why the money is not being spent and whether you can do something about that.

Mr. **Crowder**. Please do not take our actions as saying that those people do not know what they are doing. It is just that we have had a difficult time getting this done, and we will talk to you and the industry. We do talk to the industry a lot on this, as you know.

Senator COCHRAN. I understand we have some other responsibilities today besides sitting here and going through these programs. I have some other questions, but in view of the fact that Senator Bumpers has come into the hearing room, I am going to defer other questions that I have until he has had a chance to ask you some questions. I may submit these questions in writing for your response.

Thank you, Mr. Chairman.

Senator BURDICK. I will put you in the capable hands of the Senator from Arkansas, Senator Bumpers, for the rest of the hearing.

Senator BUMPERS [presiding]. Mr. Chairman, thank you very much. I apologize to you and our witnesses this morning for being late. My roller skates broke down. I am running from pillar to post around here in the morning, and I apologize to all of you.

I have nothing earthshaking about which to question the witnesses as far as the ASCS is concerned. I have always been a great champion of the program and tried to keep it funded at the right levels.

My staff tells me that the hottest issue in town right now, wetlands, has already been discussed at length, so I will not belabor that subject further.

Secretary Crowder and I have talked on the phone a couple of times about an egg proposition in my State, and he has been firm but polite in saying no. I appreciate that, and we have no problem over that, Mr. Secretary. I recognize you have a viewpoint that is absolutely essential to the Department and the Export Enhancement Program in being fair to everybody.

I am curious as to just how the program is working right now. How much money did we put in that program for this year? It was over $300 million, was it not?

Mr. CROWDER. For the fiscal year last year we had $560 million. Let me respond to your question in terms of we have been——

Senator BUMPERS. Would you put that microphone closer?

Mr. CROWDER. We have been visiting with your people, and I think there are still some meetings ongoing. As I indicated to you over the telephone where we can be efficient and where we can combat the European Community on those things, we will consider proposals, and we are still talking to your constituents about the issue about which you spoke.

Senator BUMPERS. Let me say this. I have to be absolutely candid in saying that I think your concerns about any unilateral sales, you have to look at those very carefully, and I understand that. I am really talking more generically now than about that.

If you can work that out, fine. That will be helpful to some breeder egg people in Arkansas. If you cannot, I will be very understanding about it. I am just curious as to the review process that you go through in determining who is going to receive subsidies and who is not.

Do you do it by product or country or do you do it by the amount of the subsidy compared to the price? What kind of a review process do you put these things through?

Mr. **Crowder**. We put it through an extensive process, Senator Bumpers. First of all, we can have proposals that come to us from suppliers of commodities that the European Community or others are subsidizing into other markets.

Once we get that request, it goes into Paul Dickerson's area for review, and I will let Paul add any details. Basically, they review the proposal from a country basis to see a couple of things: (*a*) That the European Community is subsidizing into that country; and (*b*) that we can be competitive in that market if we were competing on a nonsubsidized basis in the short term as well as long-term basis.

The proposal is sent through Paul to me, and if I approve the proposal, it goes to an interagency trade policy review group that is composed of a number of agencies for approval. Normally, that is a pretty routine process. When it comes back, we then announce the approval of, for example, 1 million tons of wheat for sale to the Soviet Union, which is one that was announced not long ago. I think 1 million tons is right.

Once the initiative is approved, companies will then offer a product to those countries or the countries will bid products from the suppliers.

The bids are then submitted to Paul's area, when we make several determinations: (*a*) That the sale is equal to or greater than the world price; and (*b*) that the subsidy that we offer is not greater than the difference between the domestic price and the world price. If it meets those criteria, once the initiative is approved then we will approve the bonus. We announce the bonus and the volume of the product that is exported. The initiative starts with the review process, and then there are competitive bids for the products. They have to meet those criteria before we will sign off on the bids.

Paul, do you want to add anything to that?

Mr. **Dickerson**. The only thing I might add is that the initiative has to be in place and operable prior to its use. For example, an exporter cannot make a sale to a foreign buyer and then come to the U.S. Department of Agriculture and request a bonus. Obviously that could develop into arrangements which would not provide a competitive opportunity for a lot of people and result in higher costs to the USDA.

Currently, there are seven different commodities which are being accessed under the EEP Program, and they include table eggs, which might be of interest in your area, wheat and wheat flour, barley and barley malt, vegetable oils, and poultry.

Senator **Bumpers**. Is poultry included in the list?

Mr. **Dickerson**. Poultry is included for whole frozen birds. We are doing some of that business now in the Middle East particularly.

Senator **Bumpers**. Do the French have an integrated poultry industry of any significance?

Mr. **Dickerson**. They do, and they are actively involved in the export market, particularly in the Middle East. That is one of the reasons that we focused our whole bird export program in that area, to combat that particular endeavor.

Senator **Bumpers**. Mr. Dickerson, I wish you would send me a written summary on pretty much the way you do this. This is all very interesting. I knew nothing about the program. I had some constituents who want to export some eggs, and I did what every Senator does. I called somebody and asked if they could help. I have really gotten into it and gotten interested in it.

Mr. **DICKERSON**. I would be happy to do that.

[**CLERK'S NOTE**: No insert necessary—information requested is provided in the previous responses to Senator Bumpers questions by Mr. Crowder and Mr. Dickerson.]

Senator **BUMPERS**. It sounds to me like your policy is fairly sound. I have no big quarrel with it. Naturally, I want to help export all the eggs and poultry I can because that is big in my State.

Mr. **DICKERSON**. We would be delighted to brief your staff as well at any time. We have done that for some of the other folks up on the Hill, and we can sit down and go through the mechanics with you so that everyone better understands it.

Senator **BUMPERS**. Sometimes, for example, if the French prices are so competitive—and Mr. Secretary, you mentioned the world price. The world price is sometimes a little difficult to determine, is it not?

Mr. **CROWDER**. Yes; particularly on some items, yes.

Senator **BUMPERS**. So my question, I guess, goes to the point if we feel, for example, that the domestic price of a product as opposed to the domestic—if it is an unsubsidized product. We will say in France they are growing it on the free market and we are growing it on the free market, and if they are selling it on the domestic market for a certain price and we are about at the same level, and we know, for example, if they are exporting that at something under that, would we normally try to match that if that is one of the seven products? If we know that they are subsidizing wheat at $1 per bushel, for example, would we try to match that?

Mr. **DICKERSON**. That is right. One of the criteria of having an initiative in place in the first place is to develop commodities where we deem that there are unfair trade practices.

Senator **BUMPERS**. I am not picking on France. I am just using them as an illustration. If they are selling a product at an unsubsidized price and we know that it is a legitimate price and it is under by a few cents what we could sell that same product for to their customer, we would not try to take that customer away from them.

It is only when they subsidize it and, therefore, we feel it is unfree that this EEP Program kicks in. Is that correct?

Mr. **DICKERSON**. That is correct.

WETLANDS UNDER THE CONSERVATION RESERVE PROGRAM

Senator **BUMPERS**. One other question. Did anybody bring up the question on the wetlands issue of making wetlands allowable for the CRP Program? Was that discussed?

Mr. **BJERKE**. I do not think so.

Senator **BUMPERS**. Does anyone have an opinion about that? Why not allow wetlands to be included in the CRP Program?

Mr. **CROWDER**. In the green book that summarizes the administration's farm bill proposal, wetlands, filter strips, and other things——

Senator **BUMPERS**. Are they eligible?

Mr. CROWDER. We are proposing that we target those.

Senator BUMPERS. In the green book you have that?

Mr. CROWDER. Yes, sir; as of the ninth signup they were eligible, Senator Bumpers, and we have 410,000 acres already signed up.

Senator BUMPERS. Say that again, Mr. Secretary.

Mr. CROWDER. As of the ninth signup of CRP, we have 410,000 acres already signed up.

Senator BUMPERS. Of wetlands?

Mr. CROWDER. Of wetlands. Cropped wetlands.

Senator BUMPERS. What is the current number of acres in CRP?

Mr. CROWDER. 34 million. 33.9 million.

Senator BUMPERS. Our target is 44 million?

Mr. CROWDER. 40 million is our proposal, yes, sir. We are proposing that the additional 6 million acres be targeted toward wetlands, wellheads and filter strips, and trees.

WETLAND DEFINITION

Senator BUMPERS. I will get my 2 cents worth in. That is the biggest, hottest topic in my State. That is all farmers want to talk about. Over in the delta region of my State where I have been feverishly trying to get something going to alleviate poverty over there, they tell me that 80 percent of the lands over there under the current definitions of wetlands would be classified as wetlands, which, of course, is wholly unacceptable.

I forget what they call it. Is there such a term as hydric soil?

Mr. SCALING. Yes.

Senator BUMPERS. It is all hydric soil and, therefore, qualifies as wetlands. Everything in the delta is hydric soil, so you just put thousands of farmers out of business over there. We have to come up with something that is sensible and orderly to deal with these problems. As I say, I do not want to belabor that because I know you have already talked about it.

Senator Cochran, do you have any additional questions?

Senator COCHRAN. I was just going to make a comment about that. I am submitting some questions in writing on that subject, but things are getting pretty serious down home in terms of the attitude of farmers toward some of these new regulations and what they hear the regulations are going to be. Rumors are beginning to fly around now, and it can get out of control fairly quickly unless we move to settle some of these issues and deal with them in a more responsible way.

Senator BUMPERS. It is not just the farmers in my State, either. We have some people who bought land years ago thinking that the value of it would go up over a 30- or 40-year period and that they would sell it and retire. All of a sudden when they get ready to sell it, wetlands, which had not been heard of when they bought the land, rears its ugly head. They cannot sell it, develop it or do anything with it. The land is not worth as much now as it was when they bought it because it is not developable.

That is a big problem, and they all want me to go down and hammer the Corps of Engineers on the head and make them give them a 404 permit. I tell you, I am a conservationist and one who believes in the swampbuster bill and all these other things, but we are being put under tremendous pressure back home with these things.

SUBMITTED QUESTIONS

If there are no further questions, Senator Cochran, this will conclude today's hearing. We appreciate your all being with us to give us testimony. Some additional questions will be submitted to you in writing by Senators Kasten, McClure, Cochran, and Burdick. We ask you to respond within 5 days.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE

QUESTIONS SUBMITTED BY SENATOR BURDICK

PAYMENT-IN-KIND (PIK) CERTIFICATE PROGRAM

Question: Press reports indicate that USDA believes PIK certificates have come to the end of their useful life. Is this indeed the Department's view, and if so, why?

Answer: Certificates have played and continue to play a very useful role. Certificates were very instrumental in getting large quantities of Commodity Credit Corporation (CCC) owned and producer loan grain into the market at a time when U.S. production of wheat and feed grains was greatly reduced by two successive droughts. The certificate program also enabled us to move commodities into the marketplace at competitive prices and regain lost market share. Farmers liked the certificate program since it enabled them to exchange certificates for commodities they had under loan. Commercial companies utilized them to acquire CCC-owned grain to fulfill their domestic and export commitments.

Certificates are still being issued to finance Export Enhancement Program and Targeted Export Assistance payments and the Department supports the continuation of the authority to issue certificates for future use if needed in the new farm bill. However, certificates have essentially served their purpose for the time being. CCC-owned inventory and producer loans with redemption values well above market prices have been greatly reduced. Current grain prices are at a level where adequate supplies can be attained from the market. Consequently, the need for the certificate program has diminished considerably, and its further use will be limited.

Question: How many unredeemed certificates are still out there?

Answer: As of February 28, there were 394,000 unredeemed certificates with a value of $581 million.

PAYMENT LIMITATION

Question: We have had a $50,000 payment limitation in effect since the 1985 farm bill. Has compliance with the $50,000 payment limitation created a workload burden on the ASCS county offices?

Answer: While ASCS county offices performed payment limitation activity before the 1985 farm bill, the workload since the 1985 farm bill and subsequent legislation has significantly increased. County offices expended only 72 staff years on this activity in fiscal year 1985 but more than ten times that amount in fiscal year 1989--775 staff years at a cost of $18.2 million. New regulations that took effect with the 1989 crop year required all farm individuals and entities to submit farm operating plans in order to be eligible for program payments.

Question: What is your assessment of the success of the limitation?

Answer: The payment limitation process involves considerable administrative time and requires the completion of many forms by the farmer. Exactly how many dollars in payments are denied because of payment limitations is unknown. We are uncertain as to whether or not savings are less than the amount spent in administering the program. As soon as a rule is developed in a program like payment limitations there are many farmers and their lawyers that begin developing a way to get around the rule. This action then generates additional rules to stop the abuses and soon the program has become too complex for farmers to understand and too complex for county offices to administer.

Question: Has USDA made any plans to study this issue to see whether it is cost effective to continue monitoring the $50,000 payment limitation?

Answer: As the result of an audit conducted by the USDA Office of Inspector General, the Agricultural Stabilization and Conservation Service (ASCS) has agreed to conduct a limited study that would identify dollars of payments denied as a result of a producer being ineligible for payments in excess of $50,000 versus the administrative cost to ASCS of administering the payment limitation program.

DEFICIENCY PAYMENT REPAYMENTS

Question: As you know, farmers who received disaster assistance and advanced deficiency payments for the 1988 and 1989 crops are required to repay the deficiency payments. If farmers are not able to repay on time, what do you plan to do to assist these people?

Answer: It has been a longstanding policy of ASCS to set off payment of debts from other payments due the producer. If this is not possible, ASCS will allow payment of debts in installments when the financial condition of the debtor is such that the debt cannot be paid in one lump sum. ASCS will continue this practice for collection of the 1988 and 1989 advance deficiency overpayments. We will make every effort to reach equitable agreements with debtors, which will be in both their and ASCS' best interests.

Question: If offsets are used, I am concerned that farmers will not have the benefit of any payments for the current crop year that would enable them to plant their crops. If the Department uses offsets, will the full amount be taken before any payment is made to farmers?

Answer: It is the policy of ASCS to offset program payments to collect delinquent debts, unless the offset would create an undue financial hardship. In that case, offset may be deferred or the debtor may enter into an installment agreement to repay the debt. If an installment agreement is entered into, offset will not be taken unless it is provided for in the installment agreement and then only up to the amount of the installment due.

SALARIES AND EXPENSES

Question: You are requesting $630.4 million for ASCS salaries and expenses. But you include several caveats that if certain happenings came to pass, the need could be quite different. What would be the additional need if there were to be an additional CRP signup or signups in 1991?

Answer: Based on historical workload cost information, ASCS would incur an additional $5.3 million in administrative costs for each additional CRP signup. However, it should be noted that this estimated funding amount is based on current CRP program guidelines, and any 1990 Farm Bill or other legislative changes to the CRP could result in revised signup costs.

Question: What would be the additional need if there were to be another disaster assistance program similar to that of 1989?

Answer: Based on October 1989 county office workload reports showing fiscal year 1989 actual and fiscal year 1990 estimated activity, the two-year cost to administer the 1989 crop disaster assistance program is approximately $69 million over fiscal years 1989 and 1990. However, as with all disaster programs, the estimated cost could vary depending upon producer participation and disaster program guidelines.

Question: Your budget will result in the reduction of 2,400 county office staff years from the current level. What will the effect of that reduction be on services at the county level?

Answer: The estimated reduction of 2,400 county office staff years in fiscal year 1991 primarily reflects the completion of the 1988 and 1989 disaster programs and the subsequent reduction of temporary employees used to administer these programs, as well as decreased staff years associated with no CRP signup and slight decreases estimated in other program areas. The current fiscal year 1991 budget request provides adequate funding to retain experienced personnel necessary for proper service to producers. However, these staffing and funding estimates are based on an assumed continuation of current law, and any workload changes associated with the 1990 Farm Bill proposals are not reflected in our request.

INTERNAL ORGANIZATION

Question: Mr. Bjerke, I understand that you have changed the internal organization of ASCS so that you now have experts based on commodities, rather than having experts for the various regions of the country. Is this true? How is it working?

Answer: Yes, ASCS has reorganized its Area Offices so that subject matter experts are now located in each Area Office. As you know, ASCS has five Area Offices representing the Northeast, Southeast, Midwest, Southwest and Northwest Areas. Each Area Office has a Director, Deputy Director, and Staff Specialist. The Staff Specialist formerly was a generalist in various program and commodity areas of that specific geographical area. It is a formidable task for a program specialist to maintain a comprehensive knowledge of all program areas. We believe, however, that a commodity or program area specific specialist will be able to better serve the State and county offices by providing more in-depth and consistent answers within a more focused level of expertise.

ASCS is currently filling the Staff Specialist positions competitively. No selections have been made yet. We expect this new approach using experts will work better in getting timely responses out to States and counties when complex questions are asked.

The following chart shows the subject matter specialists for each Area Office:

AREA	PROGRAM SUBJECT MATTER RESPONSIBILITIES
Northeast Area:	- Environmental and Conservation Programs - Compliance Programs

Southeast Area:	- Production Adjustment Programs for:
	    - cotton
	    - rice
	    - tobacco
	    - peanuts
	- Yields and Acreage Diversions

Midwest Area:	- Price Support Programs - Commodity Certificates - Claims - Reconstitutions and Common Program Provisions
Southwest Area:	- Program Payment Limitations - Emergency and Defense Programs - Wool and Dairy Programs - Livestock Feed Program

Northwest Area:	- Production Adjustment Programs for:
	    - feed grains
	    - wheat
	- Conservation Compliance
	- Sodbuster/Swampbuster Requirements

Question: What is the result in terms of staff levels and assignments? Have you hired more staff, reduced staff, or changed staff, as a result?

Answer: Staff levels will not change. The current specialists in the Area Offices will continue their duties until the currently advertised positions are filled. If any of the current Area Office specialists are not selected for the new specialist positions, they will be placed in headquarters positions for which they are qualified at the same grade level. While the overall staffing levels are not expected to change, the assignments performed by individuals are expected to change.

QUESTIONS SUBMITTED BY SENATOR McCLURE

FUNDING FOR WELL EXTENSIONS

Question: I am interested in the increase in the ACP funds requested in the budget. For several years now I have been requesting the use of available ECP funds to be used to extend wells of existing irrigation systems during times of severe drought, such as Idaho has been having for the past two years. My requests were denied by the USDA, even after report language specifically allowing its use was placed in two appropriations bill reports. In recommending this increase in ACP funds, does the Department expect to use a portion of these funds for well extensions should the need arise?

Answer: The Agricultural Conservation Program (ACP) provides cost-share assistance to agricultural producers to help solve soil erosion, water conservation, water quality, and pollution abatement problems on our Nation's farm and ranch lands. However, under current law, the ACP may not be used for practices that are primarily production oriented, such as drilling or deepening wells for irrigating crops.

ALFALFA LANDS UNDER CRP

Question: I have written twice now to the USDA requesting assistance for farmers in Oneida County, Idaho, who have a unique request concerning the Conservation Reserve Program. The majority of the land in Oneida County is considered highly erodible and thus was eligible for inclusion in the program. Oneida County bid many acres into the CRP during the first three signup periods. However, during the first three signup periods, lands which were then in alfalfa were not allowed, by administrative decree, to be entered into the CRP. Thus farmers who had alfalfa fields in their normal rotation were not allowed to bid these lands into the CRP. Later, the USDA changed the rules on alfalfa lands and allowed farmers to enter them into the CRP if the land was highly erodible.

That seemed fair, except to farmers in Oneida County. By the end of the third bid period Oneida County had reached the 25 percent limit imposed by law on CRP lands in any one given county. Oneida County was given a one time exemption of up to 35 percent. After the fourth bid period, no more land in Oneida County was allowed to be bid into the program. Many farmers who entered in the first three bid periods, but were unable to bid in the alfalfa lands, still have these scattered parcels of land which are eligible for inclusion but due to circumstances imposed by USDA are not allowed to do so. Oneida County first requested that they be allowed to bid in up to the 35 percent they were first allowed under the waiver. This would have allowed the farmers with alfalfa lands to bid this into the program. This request was turned down by ASCS. Then the farmers requested the ASCS to allow them to re-open their contracts and include these scattered parcels of alfalfa lands into the CRP. This was denied. I am asking again, and have sent yet another letter to ASCS requesting a review of this problem.

It is in a small area, involves only a few farmers and the farmers are even willing to forgo the cost share on establishing the cover crop on these lands. It makes little sense for these farmers to maintain equipment and machinery for only those scattered parcels. The lands are so far apart it is not economical to farm them and it is impracticable to rent them. I hope that ASCS will review this matter and respond more favorably to the Oneida County farmers request. May I please hear from you soon on this matter?

Answer: As you are aware, the Food Security Act limits the acreage that can be accepted into the CRP in any county to 25 percent of the total cropland in that county, except that the Secretary of Agriculture may exceed the limitation to the extent that he determines that such action will not adversely affect the local economy.

In order to keep to a minimum the risk of the program adversely affecting local economies, the authority to exceed the limitation has been used very cautiously. Accordingly, waivers of the limitation have been granted under the following guidelines:

- o Documentation from local officials and businesses to verify that the local economy will not be adversely affected must be persuasive.
- o The waiver applies only to the signup period for which requested. If the 25 percent limit is attained or exceeded during that signup, no additional signups will be authorized for that county.

These guidelines have been effective in allowing some additional acreage into the CRP without jeopardizing local economies. We believe that it would not be in the best interest of the program to expand the guidelines.

Producers who are having difficulty with farming the remaining acres of tillable land that cannot be accepted into the CRP can apply for cost-share assistance through the Agricultural Conservation Program and seed the remaining acres to a permanent vegetative cover.

QUESTION SUBMITTED BY SENATOR KASTEN

DAIRY PROGRAM

Question: Thank you, Mr. Chairman. I am pleased to have the opportunity today to discuss the Department of Agriculture's budget for International Affairs and Commodity Programs. The programs that are overseen by Under Secretary Crowder, the Agricultural Stabilization and Conservation Service (ASCS), the Foreign Agricultural Service and the Soil Conservation Service (SCS), are important to keeping American agriculture competitive both at home and abroad. Furthermore, the ASCS and the SCS are central to protection of our nation's environment.

Since the CCC's surplus dairy purchases are mostly made up of butter, with very little non-fat dry milk and cheese being purchased, the extent of the milk surplus is being distorted and the support price is being unfairly cut. Last year the CCC reported a 9 billion pound surplus of milk. However, had this been reflected on a solids basis and not a milkfat basis, it would have been 3 billion pounds which would not have triggered the 50 cent per hundredweight cut in the support price that occurred in January. If the support price is to be based upon CCC purchases, then it ought to reflect what the CCC is buying and right now, that is butter, not milk.

Many dairy economists have recommended that the manner of determining the milk surplus be reformed in order to accurately reflect a fair support price. One recommendation is to base it on a total solids basis which would include milkfat. A second idea is to base it on an average of butter milkfat and non-fat solids.

It is clear that the manner of basing the milk surplus solely on milkfat purchases is inaccurate and needs to be rethought. What do you think of these suggested reforms and what steps are you going to take to more fairly reflect the milk surplus in determining the support price?

Answer: The method of determining the milk equivalent of Commodity Credit Corporation (CCC) purchases of surplus dairy products has only recently become an issue. Since the Food Security Act of 1985, the measurement of the estimated milk surplus has been tied directly to the automatic adjustment in the milk support price. Recently, CCC has purchased larger quantities of milkfat in butter relative to the nonfat milk solids in milk. However, in previous years, CCC also purchased disproportionately large quantities of nonfat milk solids in the form of nonfat dry milk (NDM). We believe that the recent 1989 situation was due to market price alignment rather than a measurement problem with the milk surplus itself.

The price alignment problem in 1989 was caused by the convergence of several, independent events whose cumulative effects led to a temporary shortage in nonfat milk solids in the domestic milk market. The 1988 drought and the wet spring in 1989 resulted in a shortage of high quality feed, and thus, a highly unusual reduction in output per cow. By itself, this probably would not have resulted in a market shortage of NDM. But, some manufacturers of NDM earlier in the year, taking advantage of a first-time opportunity to market their product in the international market instead of to the government at prices higher than the domestic support price, committed much of their production to export. These events converged in the fall of 1989 when milk production was seasonally low causing a sharp increase in milk prices to farmers.

The current outlook for 1990 indicates that a repeat of the 1989 conditions is unlikely. Milk production is recovering and milk production per cow is expected to resume its upward trend as the 1990 forage and grain crops mature under more normal weather conditions. It now appears that the world supply of NDM in 1990 will increase and there will be less incentive for U.S. manufacturers to export. The European Economic Community, whose milk quota program had been a primary cause of high priced nonfat milk solids, apparently is increasing its production quotas by one percent. Even so, U.S. manufacturers who committed large quantities to export last year are expected to make much smaller commitments this year. Last year, their large commitment to export resulted in a high priced domestic market, a market in which they then could not participate.

Since April 1, 1989 we have taken four steps to align the support purchase prices for butter and NDM with the markets. First, the NDM price was raised 6.25 cents per pound and the butter price held steady to implement the temporary 50 cents increase in the milk support price. Then, on July 1, 1989, the butter price was decreased 11.5 cents per pound and the NDM held steady to terminate the temporary increase in the milk support level. Then, to implement the January 1, 1990 reduction in the milk support price, the support purchase price for butter was reduced another 11.25 cents per pound and the NDM price held steady. Finally, effective on April 21, the support purchase price for butter was reduced 11 cents per pound and and an offsetting increase of 6 cents per pound was made on the purchase price for nonfat dry milk. Once prices are re-aligned CCC purchases of milkfat and nonfat milk solids will be in the same proportion that they occur in milk. Thus, the method of measurement, whether by milk fat, nonfat milk solids or both, will result in the same surplus estimate and the question of which method of measurement to use should become moot. We will continue to monitor market conditions and make further adjustments as necessary.

FOREIGN AGRICULTURAL SERVICE

QUESTIONS SUBMITTED BY SENATOR BURDICK

EXPORT ENHANCEMENT PROGRAM (EEP)

Question: In August last year, Mr. Crowder, you announced the cancellation of all export enhancement initiatives that were not at that point final. If you recall, this resulted in a great deal of confusion about our export commitments and threatened grave hardship to our farmers. Can you provide us with assurances that the Department will not do anything to prevent the orderly operation of the export enhancement program this year?

Answer: USDA officials have made numerous changes over the past 2 to 3 years to improve the operation of the EEP. In particular over the last several months, the Department has made a number of changes in the way it manages the Export Enhancement Program in response to comments made by the Office of the Inspector General and the General Accounting Office, which should result in renewed confidence in the operation of this vital trade policy tool. The Department takes very seriously its responsibility to maintain public and market confidence in our programs. We will continue to provide the necessary oversights to insure the successful operation of our programs, including EEP.

Question: You do not plan to cut off EEP activity midway through this year, do you?

Answer: The EEP is an integral part of the U.S. trade policy strategy for achieving success in the Uruguay Round of agricultural trade negotiations under the GATT. We are working hard on this, and there is no intention to disarm unilaterally. We must remain competitive in the meantime. The EEP program should be assessed after the conclusion of the Uruguay Round.

Question: Approximately how many EEP initiatives, to how many countries do you plan to announce this year? How many have you announced to date? What is the estimated cost of EEP commodities or commodity certificates?

Answer: Thus far in fiscal year 1990, the Department has announced extensions of EEP initiatives to 8 countries. These include: Morocco/vegetable oil, Soviet Union/wheat, China/wheat, Sri Lanka/wheat, Saudi Arabia/barley, Algeria/barley, Yemen/wheat, Egypt/wheat, and Egypt/wheat flour. While additional initiatives are currently under consideration, it is impossible to say with certainly the exact number of initiatives that will be announced this year. To date, 105 initiatives for 12 different commodities to 65 countries have been announced under the EEP. Through early April the market value of awards under the EEP were $2,716.6 million, while the total value of export sales under the program was $10,190.2 million.

Question: Has the Department resolved issues of budget neutrality and cost effectiveness regarding EEP?

Answer: In 1989, a USDA/OMB study was undertaken focusing on the budget effects and export expansion or "additionality" of the EEP with emphasis on wheat sales. The study indicated that EEP raised U.S. wheat export volume and revenue and placed competitive pressure on the European Community to either spend more for subsidies or lose export volume. It was concluded that the principal objectives of the EEP had largely been met. These conclusions notwithstanding, the study also acknowledged the difficulties of measuring how well the EEP had complied with the program's criteria, particularly the additionality and budget neutrality criteria for specific country initiatives. Moreover, it was determined that program objectives had at times been secondary to operational criteria. USDA redefined the original operating criteria of the program and published them in the Federal Register on November 27, 1989 and also issued a Notice to Exporters. These new guidelines take into account the effects on trade policy negotiations, U.S. agricultural exports, other exporting nations that do not subsidize agricultural production and exports, and overall benefits of subsidies under the program.

POLAND

Question: In what activities is the USDA engaged which affect Poland?

Answer: The Department of Agriculture is engaged in a number of activities designed to assist Poland in their transition to a free-market economy. For fiscal year 1990, we have offered $145 million in food aid under the following programs: Section 416(b), a food donation program, Food for Progress, and P.L. 480. The commodities provided will include corn, pork, cotton, rice and possibly vegetable oil and soybean meal.

We are also developing technical assistance and training programs to help develop and privatize their agricultural economy. The programs we've proposed for approval and funding by interagency groups focus on the following areas: scientific research, infrastructure, production and extension, and marketing and internal trade.

Question: Under Secretary Crowder, what amount of funds will USDA spend in 1991 to assist Poland with market development, production management improvements, and collaborative research? To what extent will FAS and OICD be involved?

Answer: We plan to spend a minimum of $2 million in fiscal year 1991 for the types of technical assistance you outlined. As mentioned earlier, we have developed comprehensive assistance proposals which are based on our observations and meetings with Polish principals. FAS will be involved to the extent that they are responsible for developing and monitoring our food aid programs and coordinating all USDA activity in the country. OICD will be involved through their pool of experts in the fields of technical assistance, scientific cooperation and research, and their extensive network of contacts in the U.S. agricultural education system.

Question: When will current needs assessments be completed so that hands on development projects can get underway?

Answer: The needs assessment phase has been completed. We are now at the stage of obtaining approval and funding for the activities outlined in the assessment, and we will then be able to implement the projects so desperately needed in Poland.

TARGETED EXPORT ASSISTANCE PROGRAM (TEA)

Question: What independent assessments has the Department conducted of the Targeted Export Assistance program to determine its effectiveness in opening and developing new markets abroad for U.S. agricultural commodities?

Answer: Measuring the specific impact that foreign market promotion activities have on U.S. agricultural exports is difficult due to lag effects, cross-commodity impacts, and the interwoven effects that macroeconomic factors such as exchange rates, population and income growth simultaneously have on exports.

However, a recent independent USDA study analyzed the impact of TEA activities in Japan by using an econometric import demand framework to isolate the effects of TEA from several macroeconomic factors. The results indicated that increases in exports to Japan directly attributable to TEA activities ranged from 45-70 percent of the total export increases for the specific commodities analyzed.

Question: What market development initiatives that began with TEA funds are currently being sustained without federal funds?

Answer: We know of no initiatives or programs begun with TEA funds which are currently being sustained with private funds. This is not to say that these private initiatives do not exist. When participants no longer utilize federal funds, the FAS working relationship with the participant is reduced to the point where very little information on private initiatives is received and/or requested. For competitive reasons private companies consider this information business sensitive and are reluctant to share knowledge of its privately funded programs overseas.

Question: Will there be any restrictions on participant use of CCC generic certificates premiums in 1991?

Answer: Participants are encouraged to use premiums received from the redemption of certificates on market development activities. We are not proposing any changes to these guidelines in 1991. Presently the certificates are selling below par value.

Question: For the record, please list TEA program recipients and funds provided to each since the program inception.

Answer: I will provide for the record a table that reflects program recipients and funds from fiscal year 1986 to fiscal year 1990.

[The information follows:]

TEA STATUS REPORT

PARTICIPANT ORGAN.	COMMODITY	Amount Approved for each FY in ($) FY86	FY87	FY88	FY89	FY90
Alaska Seafood Marketing Institute	Salmon Herring Pollack		1,500,000	1,950,000	6,000,000	4,500,000
American Plywood Association	Plywood	1,950,000	1,980,000	1,200,000	5,700,000	6,500,000
American Seed Trade Association	Seeds		350,000			
American Sheep Industry Association	Wool				100,000	148,000
American Soybean Association	Soybeans	8,500,000		9,800,000	11,450,000	11,500,000
California Avocado Commission	Avocados		420,000	450,000	650,000	
Calif. Cling Peach Advisory Board	Cling Peaches	2,500,000	5,600,000	5,700,000	4,700,000	3,500,000
Calif. Kiwifruit Commission	Kiwifruit		500,000	500,000	1,000,000	900,000
Calif. Pistachio Commission	Pistachios	200,000	200,000		500,000	750,000

PARTICIPANT ORGAN.	COMMODITY	Amount Approved for each FY in ($) FY86	FY87	FY88	FY89	FY90
California Prune Board	Prunes	4,000,000	4,500,000	5,500,000	5,800,000	7,500,000
California Raisin Advisory Board	Raisins	6,300,000	9,800,000	9,800,000	10,700,000	12,500,000
California Strawberry Advisory Board	Strawberries					500,900
California Table Grape Commission	Table Grapes	350,000	450,000	750,000	1,850,000	2,300,000
California Tree Fruit Agreement	Plums, Pears Nectarines					500,000
California Walnut Commission (formerly Walnut Marketing Board)	Walnuts	9,000,000	7,000,000	6,500,000	7,300,000	8,000,000
Catfish Farmers of America	Catfish			50,000	150,000	
Cherry Marketing Institute, Inc.	Proc. Tart Cherries				500,000	400,000
Chocolate Manuf. Assoc. of America	Chocolate and Cofectionery Produts	2,500,000		2,500,000	3,000,000	900,000

PARTICIPANT ORGAN.	COMMODITY	Amount Approved for each FY in ($) FY86	FY87	FY88	FY89	FY90
Concord Grape Association	Grapes				1,500,000	700,000
Cotton Council International	Cotton	7,000,000	6,800,000	1,450,000	15,000,000	15,400,000
Eastern U.S. Agric. and Food Export Cou.	State Regiona	1,096,264	1,000,000	1,100,000	2,100,000	2,950,000
Florida Department of Citrus	Citrus	4,600,000	7,000,000	7,000,000	5,400,000	9,900,000
Hop Growers of America	Hops					50,000
Kentucky Distillers' Association	Bourbon					2,000,000
Leather Industries of America	Leather		1,500,000	1,500,000	1,800,000	
Mid-America Intern. Agri-Trade Council	State Regiona	800,000	1,200,000	1,100,000	1,900,000	2,700,000
Nat.Association of Animal Breeders	Bovine Semen				400,000	402,000
Nat. Assoc.of State Depart. of Agriculture	Trade Show	500,000			100,000	750,000

PARTICIPANT ORGAN.	COMMODITY	Amount Approved for each FY in ($) FY86	FY87	FY88	FY89	FY90
Nat. Council of Farmer Cooperatives	Ag Products			350,000	300,000	
Nat. Dry Bean Council	Dry Beans			800,000	1,000,000	
Nat. Forest Products Association	Wood Products				8,150,000	7,400,000
National Hay Association	Hay & Alfalfa Prod.		300,000			
National Honey Board	Honey				500,000	1,000,000
National Pasta Association	Pasta	2,100,000				
National Peanut Council	Peanuts	4,500,000	4,500,000	1,500,000	7,400,000	4,500,000
National Potato Promotion Board	Potatoes	2,000,000	2,550,000	2,400,000	4,700,000	4,800,000
National Sunflower Association	Sunflower Seed		3,000,000		2,400,000	4,000,000
Northwest Hortic. Council (Pears)	Pears	300,000	400,000	500,000	800,000	900,000

PARTICIPANT ORGAN.	COMMODITY	Amount Approved for each FY in ($) FY86	FY87	FY88	FY89	FY90
Northwest Hortic. Council (Apples)	Apples	1,400,000	1,500,000	2,000,000	2,850,000	3,800,000
Northwest Hortic. Council (Cherries)	Sweet Cherries		120,000	450,000	800,000	1,000,000
U.S. Wheat Assoc. Inc.	Wheat	3,100,000	3,100,000	1,200,000	4,900,000	5,200,000
Rice Council for Market Development	Rice	3,500,000	3,500,000	4,500,000	5,700,000	8,500,000
Southern U.S. Trade Association	State Regions	800,000	800,000	1,100,000	1,900,000	2,700,000
Texas Produce Export Association	Grapefruit					150,000
Tobacco Associates	Tobacco		900,000	400,000	2,750,000	5,000,000
USA Dry Pea & Lentil Council	Peas & Lentils	2,500,000	2,500,000	3,000,000	1,000,000	
U.S. Feed Grains Council	Feed Grains	11,100,000	2,800,000	2,400,000	4,200,000	6,000,000
U.S. Meat Export Federation	Red Meat	7,000,000	7,000,000	4,500,000	17,000,000	9,000,000

PARTICIPANT ORGAN.	COMMODITY	Amount Approved for each FY in ($) FY86	FY87	FY88	FY89	FY90
U.S. Mink Export Development Council	Mink				2,500,000	1,500,000
USA Poultry and Egg Export Council	Poultry and Eggs	6,000,000	6,500,000	4,250,000	8,000,000	6,000,000
Western U.S. Agric. Trade Association	State Regions	2,200,000	1,950,000	1,600,000	4,300,000	5,250,000
Wine Institute	Wine	4,800,000	2,600,000	3,000,000	7,000,000	9,000,000
TOTAL		100,596,264	93,820,000	90,800,000	175,750,000	180,950,000
Almonds (EIP)	Almond	900,000	4,180,000	6,300,000	11,800,000	9,000,000
Citrus (EIP)	Citrus	8,499,250	10,500,000	10,500,000	11,200,000	8,800,000
Mink (EIP)	Mink Pelts		1,500,000	700,000		
Processed Corn (EIP)	Corn			1,500,000	1,250,000	1,250,000
EIP SUBTOTAL		9,399,250	16,180,000	19,200,000	24,250,000	19,050,000
TEA GRAND TOTAL		109,995,514	110,000,000	110,000,000	200,000,000	200,000,000

SUNFLOWERSEED AND COTTONSEED OIL ASSISTANCE PROGRAMS (SCOAP)

Question: Over the past few years $60 million in funds have been made available for the purchase of sunflowerseed and cottonseed oil for export. What is the current status of sunflowerseed and cottonseed oil bids for Algeria and Egypt?

Answer: There are currently two outstanding Sunflowerseed Oil Assistance Program initiatives; 20,000 metric tons for Egypt and 25,000 metric tons for Algeria. There is a 20,000 metric tons Cottonseed Oil Assistance Program initiative in place for Egypt.

Question: What other countries have expressed an interest in oil purchases?

Answer: No other countries have expressed an interest in participating under the COAP and SOAP programs. However, cottonseed oil and sunflowerseed oil remain eligible commodities under EEP, so both Morocco and India--the only countries eligible for EEP bonuses for vegetable oil sales at this time--could conceivably import these oils under subsidy, if desired.

Question: What activities does FAS have underway to promote sunflower seed and cotton seed oil purchases?

Answer: The National Sunflower Association--NSA--has been a participant in the Targeted Export Assistance--TEA--Program since fiscal year 1987. NSA's 1990 TEA allocation is $4 million, which includes support for the promotion of sunflowerseed oil. NSA receives approximately $301,000 annually in Foreign Market Development project funds under the Cooperator Program, while the National Cottonseed Products Association--NCPA--receives approximately $155,000 under the same program. While not exclusive to sunflowerseed and cottonseed oils, vegetable oil announcements under GSM-102 for fiscal year 1990 total $228.8 million. In addition, fiscal year 1990 P.L. 480 Title I signed agreements for vegetable oil totaled $119.6 million--238,000 metric tons--as of early April. With respect to SOAP and COAP, FAS remains in close contact with Agricultural Counselors and Attaches in the importing countries, as well as the U.S. private sector, in an effort to facilitate the effective operation of the programs.

SHORT-TERM AND INTERMEDIATE-TERM EXPORT CREDIT

Question: The 1991 budget proposes a limitation on the amount of short-term and intermediate-term export credit available to finance export sales of U.S. agricultural commodities. What is the amount of GSM-102 credits that will be made available in 1990? Why is the Department recommending a limitation of $5 billion on the amount of short-term credits to be made available in 1991?

Answer: In fiscal year 1990, the program level for the GSM-102 program is $5 billion. We are recommending a $5 billion level for GSM-102 during fiscal year 1991, because at present that is our best estimate of the need for credit guarantees during that period.

Question: What is the amount of GSM-103 credits that will be available in 1990? Why is there a cap on this program as well?

Answer: The fiscal year 1990 program level for the GSM-103 program is $500 million. We do not anticipate demand for this program being greater during fiscal year 1991 than the current level.

Question: For what commodities are these credit programs most utilized? What level of development is representative of countries using the GSM credit guarantees most frequently?

Answer: In fiscal year 1989, wheat accounted for 26 percent of the exports under the GSM-102 and GSM-103 programs; this is the largest single commodity percentage. Other major commodities included feedgrains with 19 percent of the total, and oilseeds, protein meals and cotton received 8 percent, 7 percent and 5 percent, respectively. Most of the countries currently using the GSM-102 and 103 programs fall into the lower-middle to middle income countries, as classified by the United Nations, meaning their GNP per capita is in the range of $500 to $2,000. A table will be provided for the record showing a complete breakdown of commodities registered under these programs for fiscal year 1989.

[The information follows:]

COMMODITY SUMMARY

STATUS REPORT ON CCC'S COMMERCIAL EXPORT CREDIT PROGRAMS FY 1989
ANNOUNCED AND REGISTERED AMOUNTS WITH A BALANCE TO BE USED

14-Nov-89

COUNTRY	GSM-102 STRAIGHT ANNOUNCED	GSM-102 STRAIGHT REGISTERED	GSM-102 STRAIGHT BALANCE	GSM-103 STRAIGHT ANNOUNCED	GSM-103 STRAIGHT REGISTERED	GSM-103 STRAIGHT BALANCE	TOTAL ANNOUNCED	TOTAL REGISTERED	TOTAL BALANCE
Almonds	0.40	0.00	0.40	0.00	0.00	0.00	0.40	0.00	0.40
Animal Milk Replacer	0.50	0.50	0.00	0.00	0.00	0.00	0.50	0.50	0.00
Barley Malt	1.60	1.60	0.00	0.00	0.00	0.00	1.60	1.60	0.00
Beans, Dry Edible	51.00	50.40	0.60	32.50	20.40	12.10	83.50	70.80	12.70
Breeder Chicks	0.50	0.10	0.40	11.20	11.20	0.00	11.70	11.30	0.40
Breeder Livestock	54.72	51.64	3.08	4.90	2.80	2.10	59.62	54.44	5.18
Concentrate, Fruit Juices	6.60	6.44	0.16	0.00	0.00	0.00	6.60	6.44	0.16
Corn	0.00	0.00	0.00	2.00	0.00	2.00	2.00	0.00	2.00
Corn Starch	2.50	2.50	0.00	0.00	0.00	0.00	2.50	2.50	0.00
Cotton	294.53	286.83	7.70	0.00	0.00	0.00	294.53	286.83	7.70
Dairy Products	27.60	26.70	0.90	0.00	0.00	0.00	27.60	26.70	0.90
Feed Grains	901.31	854.64	46.67	134.20	123.50	10.70	1,035.51	978.14	57.37
Furskins	25.00	21.50	3.50	0.00	0.00	0.00	25.00	21.50	3.50
Hides and Skins	20.40	19.70	0.70	0.00	0.00	0.00	20.40	19.70	0.70
Hops	0.30	0.20	0.10	0.00	0.00	0.00	0.30	0.20	0.10
Leather	12.40	12.40	0.00	0.00	0.00	0.00	12.40	12.40	0.00
Meat, Frozen or Chilled	31.77	31.37	0.40	0.00	0.00	0.00	31.77	31.37	0.40
Meat, Frozen Poultry	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Milk, Non-Fat Dry	110.00	110.00	0.00	0.00	0.00	0.00	110.00	110.00	0.00
Mixed Poultry Feed	0.00	0.00	0.00	1.00	0.00	1.00	1.00	0.00	1.00
Molasses	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Oilseeds	437.37	434.89	2.48	2.60	0.00	2.60	439.97	434.89	5.08
Planting Seeds	20.39	19.09	1.30	0.00	0.00	0.00	20.39	19.09	1.30
Poultry Breeder Stock	1.00	0.84	0.16	10.00	0.00	10.00	11.00	0.84	10.16
Processed Food Products	1.00	1.00	0.00	0.00	0.00	0.00	1.00	1.00	0.00
Protein Concentrates	101.00	101.00	0.00	4.00	0.00	4.00	105.00	101.00	4.00
Protein Meals	368.33	367.53	0.80	4.00	3.20	0.80	372.33	370.73	1.60
Pulses	35.60	34.10	1.50	0.00	0.00	0.00	35.60	34.10	1.50
Rennet, Natural Calf	0.30	0.30	0.00	0.00	0.00	0.00	0.30	0.30	0.00
Rice	265.41	263.01	2.40	12.00	12.00	0.00	277.41	275.01	2.40
Sugar	52.40	52.40	0.00	0.00	0.00	0.00	52.40	52.40	0.00
Tallow	41.70	33.10	8.60	0.00	0.00	0.00	41.70	33.10	8.60
Tallow/ Greases	85.56	81.36	4.20	0.00	0.00	0.00	85.56	81.36	4.20
Telephone Poles	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tobacco	0.00	0.00	0.00	27.20	27.20	0.00	27.20	27.20	0.00
Undesignated	34.95	0.00	34.95	0.57	0.00	0.57	35.52	0.00	35.52
Veg. Oil	228.91	218.21	10.70	0.00	0.00	0.00	228.91	218.21	10.70
Wheat	1,159.25	1,120.03	39.22	184.09	174.09	10.00	1,343.34	1,294.12	49.22
Wheat Flour	59.00	59.00	0.00	20.00	18.10	1.90	79.00	77.10	1.90
Wheat/ Wheat Flour	210.20	210.20	0.00	35.00	33.00	2.00	245.20	243.20	2.00
Wood Products	188.30	166.00	22.30	0.00	0.00	0.00	188.30	166.00	22.30
Wood Pulp	47.90	47.70	0.20	0.00	0.00	0.00	47.90	47.70	0.20
Wood Pulp/Wood Chips	42.70	42.70	0.00	0.00	0.00	0.00	42.70	42.70	0.00
Wool	19.00	19.00	0.00	0.00	0.00	0.00	19.00	19.00	0.00
Yeast	3.40	3.40	0.00	0.00	0.00	0.00	3.40	3.40	0.00
TOTAL COMMODITIES	4,965.20	4,769.78	195.42	485.30	425.53	59.77	5,450.50	5,195.31	255.19

BUDGET RECOMMENDATIONS

Question: The 1991 budget includes $1,346,000 for Foreign Agricultural Affairs relating to overseas operations costs and provision for the 1991 pay raise. What is the extent of increased overseas operations costs? Please provide examples of these costs.

Answer: Of the total increase proposed, $1,100,000 is requested to offset anticipated overseas wage and price increases. Almost all of this amount is associated with anticipated increases in foreign national salaries and benefits, rents and our payment to the Department of State for shared administrative services.

Question: Last year the Committee provided funds to FAS for reimbursement to the State Department for embassy services abroad. What portion of the 1991 budget will pay for embassy services and be passed through to the Department of State?

Answer: The fiscal year 1991 budget includes $8,054,000 for our anticipated payment to the Department of State for administrative support.

Question: What percent pay raise will FAS employees receive in 1991?

Answer: The President's budget proposes a 3.5 percent pay raise for all federal American civilian and military personnel.

Question: Are foreign national employees of FAS eligible for this pay raise as well?

Answer: No, foreign nationals employed by FAS are not eligible for this federal pay raise. These employees are paid in local currencies and receive cost of living increases based on local wage surveys conducted by the Department of State. These increases vary widely by geographic region of the world.

Question: How many total employees are covered by the pay raise?

Answer: The pay raise will affect 572 FAS American employees.

FOREIGN AGRICULTURAL ATTACHES ACTIVITIES

Question: Do FAS attaches provide regular reporting on trade leads over the AIMS electronic market information system?

Answer: Fifty-two overseas posts submitted a total of 3,149 trade leads to FAS Washington during fiscal year 1989. These leads were generally processed and distributed to electronic bulletin boards within less than twenty-four hours after receipt. The trade leads are published in the Journal of Commerce several times each week. It is estimated that these leads are ultimately received and followed up by over 30,000 end users. Based on follow-up surveys, these leads resulted in sales of U.S. agricultural commodities of over $21.5 million.

Question: What efforts are made to follow through on these leads to determine whether they result in subsequent trading activities?

Answer: The only means available to determine if a U.S. supplier has followed up on a trade lead is to ask the foreign buyer. Most overseas buyers that use the service are in frequent contact with our overseas office. Although they do not always talk about their individual transactions, they generally let us know if U.S. suppliers are being responsive and whether we are price competitive. In addition, our Agricultural Attaches send follow up surveys to all of the overseas buyers that submitted trade leads during the year. These surveys provide the basis for our sales estimates and provide insight into the effectiveness of the service in bringing foreign buyers and U.S. suppliers together.

Question: How is the success of these reporting activities determined?

Answer: The overall effectiveness of our trade leads program is evaluated according to both subjective and objective criteria. Foreign buyers, U.S. suppliers and our overseas offices have all made comments on the overall effectiveness of the program. FAS has taken these comments into account to improve the quality, timeliness, and distribution of each lead. Also, an effort is made to evaluate the overall cost effectiveness of the service based on cost-benefit criteria.

Question: What is the cost of these efforts?

Answer: Total costs for the Trade Lead program were about $100,000 last year, yielding a benefit-cost ratio of 215 to 1.

CHOCOLATE BLOCK IMPORTS

Question: Subsequent to GAO's investigation of the importation of chocolate blocks of 10 pounds or more, has FAS initiated a review of the impact of these imports on the dairy industry?

Answer: The Department continues to review the situation on an ongoing basis from the perspective of the sugar price support program. About 50 percent of the chocolate block is sugar and only 20 percent is dry whole milk. We have reviewed the information contained in the recent General Accounting Office report on chocolate products. At this time, we have not come to the conclusion that restrictions on imports of chocolate blocks are necessary to protect either the USDA dairy or sugar price support programs.

FOREIGN AGRICULTURAL ISSUES -- GENERAL

Question: What USDA agency is responsible for tracking foreign agricultural imports?

Answer: The Foreign Agricultural Service is the agency responsible for tracking foreign agricultural imports.

Question: Upon what information does USDA rely for this information?

Answer: The Foreign Agricultural Service relies on three large data bases for trade information. These include U.S. agricultural trade statistics from the Department of Commerce, and world agricultural import data from the United Nations Statistical Office and the Food and Agriculture Organization. Along with these data bases, our worldwide network of agricultural attaches provide us with trade data on their assigned countries.

Question: What efforts is USDA undertaking to prepare U.S. agribusiness for competition in an open, market-oriented, global economy?

Answer: FAS provides a range of services to U.S. exporters which are designed to facilitate their entry into the foreign market. Market information, trade leads and foreign buyer lists are used to identify market opportunities and to match U.S. suppliers with foreign buyers. FAS sponsors U.S. participation at international agricultural trade shows, U.S. agent shows, and U.S. solo shows. These shows are used to display U.S. food products, to determine the marketability and acceptability of U.S. food products in selected country markets, and to introduce U.S. firms to overseas buyers. In addition, FAS works with the State Departments of Agriculture thorough regional cooperator groups to implement a wide range of market development programs overseas.

AGRICULTURAL COUNSELOR STATUS

Question: What is the current diplomatic rank of senior foreign agricultural service officers overseas?

Answer: The Foreign Agricultural Service was authorized three years ago to designate eight Minister-Counselor positions. We now have all eight of these positions filled with senior foreign service officers. Posts where we are currently using these titles include Ottawa, Brussels--USEC, London, Tokyo, Seoul, Mexico City, Moscow and Geneva.

Question: Is it necessary for agricultural service officers serving overseas to be granted greater title or status?

Answer: We believe that Congressional authorization of the rank of Minister-Counselor for positions at major posts has significantly increased the status of our senior officers. We believe the eight Minister-Counselor posts that have been filled plus four more which we intend to request will provide sufficient title and status to ensure the Foreign Agricultural Service can carry out its mission.

Question: Would such a change affect the salary, privileges, or benefits of the senior agricultural officer while abroad?

Answer: The Minister-Counselor rank is a diplomatic title--i.e. a rank in position title which is held by the incumbent for the duration of his/her assignment at a post where the position has been designated at the Minister-Counselor level. This means that the person occupying the position could hold a different personal rank than either his/her predecessor or successor and, therefore, the salary would vary depending on the personal rank of the incumbent. However, in terms of privileges and benefits, the rank of Minister-Counselor has significantly improved our diplomatic ranking in those Embassies where we have the titles and this has put our USDA/FAS programs on a par with that of other top ranking section heads. This rank, along with direct access to the Ambassador, has clearly improved our negotiating position on all major trade and policy issues affecting U.S. agriculture. This is especially important in rank conscious countries where we have a high trade volume like the Soviet Union and Japan. A concrete example is the case of Geneva where the rank of Minister-Counselor for our designated officer there sends a clear message about the importance the U.S. Government attaches to the outcome of the Uruguay Round of the GATT negotiations.

Question: Should higher diplomatic rank be granted to all senior foreign agricultural service officers? How many at each embassy? At how many embassies?

Answer: We believe that diplomatic rank is important because it sends a signal to the host government about the level of importance that the U.S. Government attaches to agricultural trade, production and policy issues both in the host country and in the United States. We currently have a total of 31 posts which are staffed or authorized to be staffed by personnel who carry either the title of Counselor or Minister-Counselor while at post. Of this total, 23 are Counselor posts—this would fall to 19 if four more Minister-Counselor positions are approved—and eight are Minister-Counselor posts. We believe that no more than one FAS officer at each post so authorized should carry the rank of Counselor or Minister-Counselor. In summary, all of our senior foreign agricultural service officers serving overseas as direct members of the Ambassador's country team carry either the Counselor or Minister-Counselor title. We think that with four more Minister-Counselor positions overseas, we will be able to ensure that all senior foreign agricultural service officers overseas can hold the rank of Minister-Counselor where appropriate to the overall level of U.S. representation to any particular country.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

COTTONSEED OIL ASSISTANCE PROGRAM (COAP)

Question: To assist exports of cottonseed oil, the Appropriations Committee and Congress mandated use of Section 32 funds in fiscal years 1989, 1990 and 1991 to purchase cottonseed and sunflower oil to facilitate additional sales in world markets at competitive prices. Why have no sales of cottonseed oil been approved utilizing the COAP program? Are alternative plans being made to allow the program to operate during fiscal year 1990?

Answer: There are a number of factors at work which, combined, have severely limited COAP's effectiveness. Key among these is the fact that there are very few export markets for cottonseed oil, with Egypt being by far the largest market. As for the bids USDA has received to date under the Egyptian initiative, these have been rejected on the basis of USDA's price and bonus review criteria. In carrying out this program, the Department makes a concerted effort not to undercut world prices, and also not to pay bonuses above the level deemed necessary to make the sale. The Department is continuing to examine ways to activate the program within the approved criteria.

Question: How many countries have been designated as eligible to purchase cottonseed oil utilizing the COAP program? Has USDA been asked to increase the number of countries eligible to purchase oil under COAP, and are there plans to increase the number?

Answer: Egypt is the only country that has been targeted to date under COAP. USDA has been requested to expand COAP and continues to give full consideration to extending the program to countries other than Egypt. A key constraint, however, is that there are very few export markets and limited demand for cottonseed oil. In the principal markets other than Egypt - Japan, Korea and Venezuela - the United States is currently exporting cottonseed oil on commercial terms. The Department has sought to avoid a situation where we effectively displace U.S. commercial exports in favor of subsidized sales.

Question: Are there any restrictions, other than price competitiveness, on the use of the COAP program? For example, can COAP be utilized to compete with vegetable oil exports from Argentina and Brazil?

Answer: It has been the Administration's policy from the outset to operate COAP under the EEP criteria. As such, countries like Brazil and Argentina - which are viewed as "nonsubsidizers" for the purpose of these export programs - are exempt from targeting as unfair competitors. In addition, eligible destinations under the EEP criteria are those countries where the EC is actively exporting its subsidized vegetable oils.

Question: When USDA considers an exporter's request for assistance under COAP, does the determination of a competitive price include quotations from all countries or are certain quotas eliminated in the calculation?

Answer: The USDA price and bonus review process includes world vegetable oil quotes calculated on a daily basis. All known price quotes are considered when evaluating both the price and bonus request.

Question: How many requests for COAP assistance have been submitted to USDA? Have all bids/requests been rejected?

Answer: As of April 6, 1990, there were 139 requests for COAP assistance submitted to USDA. All of these requests have been rejected on the basis of USDA's price and bonus review criteria.

Question: What role does the interagency review committee play in administering the COAP program?

Answer: The USDA forwards all COAP initiatives to the Interagency Trade Policy Review Group--TPRG--for assessment and approval. Upon approval by the TPRG, the USDA administers the program.

QUESTIONS SUBMITTED BY SENATOR McCLURE

PACIFIC NORTHWEST - WHITE WHEAT SALES

Question: Mr. Chairman, I appreciate the opportunity to ask a few questions of the witnesses appearing before the subcommittee today. I welcome all the witnesses here today, it is always good to have a chance to discuss the Administration's budget requests and to have a chance to discuss other issues of concern, particularly in Idaho.

First, I would like to address international programs. I have long been a supporter of the Export Enhancement Program because I felt it was necessary to show the world that the U.S. could and would combat the unfair foreign trade practices which were hurting American agricultural producers. The EEP program has been, in my opinion, a very successful program and I was pleased to see that Secretary Yeutter requested its continuation in the Administration's Farm Bill proposal and in the USDA's budget request.

You, no doubt, are aware of recent low prices in the soft white wheat markets in the Pacific Northwest. Many producers watched as the soft white wheat prices fell over a dollar in a very short period of time. Many were looking for the reason as to why this happened. Some farmers and wheat grower associations felt that it was the fault of the US Foreign Agricultural Service for not granting large enough EEP bonuses to entice sales to the Pacific Northwest ports. Some felt that the problem was related to loss of sales due to cargo preference requirements under P.L. 480. Some farmers I spoke with expressed their belief that USDA personnel in Washington were conspiring with the Gulf Port brokers to move all wheat from the Gulf ports.

Mr. Crowder, what is your explanation of what caused the problem in the Pacific Northwest as it concerns soft white wheat price and sales? Do you see any way that the USDA can be of assistance to farmers affected by this problem?

Answer: Northwest soft wheat export sales were below expectations this year mainly because India stopped importing, Egypt took less U.S. wheat because of credit repayment problems, and cargo preference requirements work more heavily against West Coast wheat. Some have said that EEP bonuses favor Gulf wheats, but this is not true; under EEP, buyers choose which U.S. wheat they want, and for each market, the subsidy available on a given day is the same for all our classes of milling wheat. We see no way at this time how USDA could help offset the problems that arose this year.

Question: Is cargo preference causing sales under P.L. 480 to be lost?

Answer: Cargo preference per se is not causing sales under P.L. 480, Title I to be lost, although in some cases it does cause a slight reduction in the total quantity of commodity which can be purchased. This occurs when the importing country must select higher-priced commodity offers in order to meet cargo preference requirements. For example, there may not be any U.S. flag vessels offered on the coastal range where the commodity is cheapest.

Question: Were any sales lost under P.L. 480?

Answer: No sales were lost under P.L. 480.

Question: If so to what countries and why were they lost?

Answer: There were no sales lost under P.L. 480.

REQUESTED USE OF EEP FUNDS TO COMBAT THE RECENT EEC INCREASE IN PORK EXPORT SUBSIDIES

Question: Before I move to the Targeted Export Assistance Program, I would like to ask if you have favorably considered my request to use EEP funds to combat the recent EEC increase in pork subsidies? If you have not made a decision on this matter, when do you expect to make one?

Answer: We have considered your request to authorize the use of EEP bonuses to counteract recently increased EC export subsidies for pork cuts to Japan and to support U.S. pork sales to that country. Based on the criteria we use to evaluate such requests, we concluded that a new EEP initiative for pork is not appropriate at this time.

Question: What problems do you perceive with this request?

Answer: We perceived three problems with authorizing an EEP initiative on pork. First, the higher refund levels for EC exports to Japan set in January are actually lower, both in absolute terms and as a percentage of the actual delivered price of the product, than those which existed from April 1988 to May 1989.

Second, EEP bonus payments are not critical to the maintenance and expansion of U.S. pork exports to Japan. U.S. exports to Japan grew, both in terms of absolute volume and market share, despite fluctuations in the levels of EC export refunds. During the last 4 years, our volume grew from 9,000 to 51,000 tons, while our share of the Japanese import market grew from 6 to 14 percent.

Third, the EC's action is not the result of new legislation, nor has the EC committed itself to specific obligations concerning this policy tool in the Uruguay Round.

On a final note, I would like to mention that USDA's estimated market development support for U.S. pork promotion activities for fiscal year 1990, most of which is earmarked for Japan, amounts to approximately $3.2 million. Most of this amount comes from the TEA program. This support helps U.S. pork producers cope with unfair trade practices, and expands our pork sales in Japan and elsewhere.

TARGETED EXPORT ASSISTANCE PROGRAM (TEA)

Question: The Targeted Export Assistance Program, commonly called TEA, has been a very successful program, in my opinion. It has allowed minor crops producers to be competitive in foreign markets and has led to market development in many foreign countries. I am pleased to see that the USDA recommended that it be reauthorized in its 1990 Farm Bill proposal. I notice that the USDA reserves the right to review it after the Uruguay Round of the GATT negotiations are completed. While many agriculture groups like this program, many are finding that the increased administrative expenses now being imposed upon them are becoming too excessive a burden and are considering opting out of the program. Several small TEA recipients in Idaho have expressed to me their dismay over the fact that they are not allowed to use any of the TEA funds to cover administrative expenses. With the imposition of many new reports and control measures taken since the investigation by the General Accounting Office--GAO--some small associations and groups using the TEA program are becoming less and less able to fund the increased administrative expenses. To make matters worse, the generic certificates made available to these groups are selling on the market for less than face value, forcing the TEA recipients to use even more of their funds to make up the short fall. Is there any way that the Administration can allow small TEA recipients to use 5 to 10 percent of TEA funds for administrative purposes?

Answer: An important criteria for participation in the TEA program requires participants to provide all administrative overhead costs in the United States. FAS in turn provides overseas administration costs. FAS would have to change its operating guidelines to authorize the use of TEA support for program administration in the United States.

Question: Would the Administration oppose this if certain Senators were to bring an amendment to the farm bill to address this issue?

Answer: The Administration will conduct the program consistent with legislative intent.

TARIFF RATE QUOTA

Question: I will leave this matter and go on to one that upsets me even more--that being the matter of the "Tariff Rate Quota" now being espoused by the U.S.T.R.'s office as a solution to the unfavorable GATT panel report on the headnote authority of the U.S. tariff schedules as it pertains to sugar. I have been told that the analysis of the various alternatives were completed by the Office of the Undersecretary for International Affairs and Commodity Programs. I would like for either Mr. Crowder or Mr. Anderson of the Foreign Agricultural Service to make this analysis available to me within the week.

Answer: The analysis you refer to involved much legal and technical research. I will provide for the record the results of this research.

[The information follows:]

OPTIONS FOR PRESIDENTIAL ACTION UNDER EXISTING LAW TO REPLACE THE HEADNOTE QUOTA ON IMPORTS OF SUGAR

Option I: Convert the Absolute Quota to a Tariff-Rate Quota

The President, acting under the authority of Additional U.S. Note 2 to Chapter 17 of the Harmonized Tariff Schedule of the United States (HTS), could modify Additional U.S. Note 3 to Chapter 17 to proclaim a tariff-rate quota for imports of sugar, syrups and molasses to replace the existing absolute quota. Such a tariff-rate quota would provide that a specified quantity of such articles may be imported at a lower tariff rate (either at the existing rate or above) and that any additional quantity may be imported at a higher tariff rate (either fixed or variable) set at a level sufficiently high to prevent the forfeiture of sugar to the CCC under the domestic price support program. The existing country-by-country allocation of the quota amount could be retained, as could the respective delegations of authority to the United States Trade Representative and Secretary of Agriculture to modify the quota allocations, the quota amount and the quota period.

The President could also provide, pursuant to section 504(a) of the Trade Act of 1974 (19 U.S.C. 2464(a)(1)) and section 213 (d)((1)(A)), that imports of sugar, sirups and molasses from beneficiary countries under the Generalized System of Preferences (GSP) and the Caribbean Basin Initiative (CBI) would continue to receive duty-free treatment for the quantities of such articles that would otherwise be entitled to enter the United States at the lower tariff rate provided for by the tariff-rate quota.

Current regulations with respect to quota-exempt programs could be modified to regulate the importation of sugar, at the lower duty rates, for the production of polyhydric alcohol or to be re-exported as refined sugar or in sugar-containing products. Other regulations pertaining to the current headnote quota would be modified to adapt them to the tariff-rate quota.

No change would be made to the fees or quotas maintained under section 22 of the Agricultural Adjustment Act of 1933, as amended (Section 22) (7 U.S.C. 624), unless refined beet sugar or certain cocoa powder or sirups were to be imported, or practically certain to be imported, in such quantities as to render or tend to render ineffective, or materially interfere with, the price support program for sugarcane and sugar beets.

This option would replace the absolute quota, which has been found to be inconsistent with the General Agreement on Tariffs and Trade (GATT), with a GATT-consistent tariff-rate quota. At the same time, it effectively avoids forfeitures of sugar to the Commodity Credit Corporation (CCC), maintains the current protection of domestic producers of sugarcane and sugar beets and the access to the U.S. market by GATT contracting parties, and preserves the current benefits for CBI and GSP beneficiary countries.

However, the binding and progressive elimination of duties under the United States-Canada Free-Trade Agreement makes it likely that there will be a substantial increase of import of refined sugar and certain sirups and cocoa powder from Canada, which would require action pursuant to Section 22 or other legal authorities.

Option II: Impose Maximum Section 22 Fees

The President could replace the current headnote quota with import fees, imposed at the maximum - 50% ad valorem - permitted under Section 22, on those articles currently subject to the headnote quota.

Conversion from the headnote quota to Section 22 fees would bring the United States into consistency with the GATT. However, because Section 22 fees may not exceed 50% ad valorem, they cannot assure the avoidance of forfeitures of sugar to the CCC over the long term, if the price support level for raw cane sugar remains at 18 cents per pound and the world market price of raw sugar were to drop below 13.22 cents per pound. Moreover, this option would substantially eliminate the current economic benefits for CBI and GSP beneficiary countries.

Option III: Impose Section 22 Quotas at Minimum Levels

The President could replace the current headnote quota with import quotas imposed at the minimum levels - 50% of trade during a representative period - permitted under Section 22 on articles currently subject to the headnote quota. This option would require the existing Section 22 fees on imports of refined sugar be eliminated.

Because imports were at much higher levels during the time period determined to be representative (1975 - 1981), this option would immediately result in forfeitures to the CCC of substantial quantities of sugar (759,000 to 793,000 short tons under current conditions). It is doubtful that the use of a more recent time period would be found to be representative, if the quota were to be subjected to domestic judicial review and/or renewed GATT scrutiny. In addition, the use of a Section 22 quota could stimulate the Contracting Parties of the GATT to withdraw the waiver, as suggested by the recent panel, and this would have adverse consequences for the dairy, cotton, and peanut programs, as well as the sugar program.

ALTERNATIVES TO BRING SUGAR IMPORT REGIME INTO CONFORMITY WITH THE GATT

Question: I am interested in understanding the various "alternatives" which were analyzed.

Answer: Our analysis focused on alternatives which could be implemented under existing administrative authority — authority requiring no new legislation from the Congress. Our objective was to locate just what type of import regimes for sugar could be established under existing authority which would bring the import regime into conformity with the GATT and at the same time enable us to meet the requirements of domestic statutes concerning sugar, in particular, the requirement to operate the program at no cost by avoiding forfeitures of sugar to the Government. Here is what we found.

By Presidential Proclamation, we can establish an import regime of fees or quotas under the authority of Section 22 of the Agricultural Adjustment Act of 1933, as amended, and we can establish a tariff-rate quota in lieu of the current absolute quota under the authority of Additional U.S. Note 2 to Chapter 17 of the Harmonized Tariff Schedule of the United States--the sugar headnote authority.

Under the authority of Section 22, we can establish import fees or import quotas, but cannot implement both concurrently with respect to the same article. Fees are limited to no more than 50 percent ad valorem. Quotas can be set at no less than 50 percent of the level of imports during a "representative period."

There is no precise definition for "representative period." However, these words are usually interpreted to refer to a period characterized by relatively free trade, in the absence of import quotas. In the case of sugar, this is the period 1975-1981. In fact, the actions we have taken on sugar, both under Section 22 and under the sugar headnote, have used this period or some subset of it as the representative period. On that basis, a Section 22 import quota on raw and refined sugar would be in the vicinity of 2.4 million short tons, raw value. Such a quota likely would result in imports increasing supplies on the domestic market to a level that would exceed domestic needs and result in acquisitions of sugar by the Government.

Section 22 fees currently could be set at levels which provide full border protection -- import prices could be prevented from undercutting the domestic support price. However, our experience with such a fee system is that it cannot assure full border protection when world prices fall. For example, with inception of the current sugar program on December 23, 1981, a system of Section 22 import fees was implemented which at the same time was able to provide full border protection. By the spring of 1982, world prices became sufficiently low to prevent Section 22 authority from providing full border protection. As a result, the current system of quotas was established under the headnote authority on May 5, 1982.

In addition, Section 22 fees are applied to imports from beneficiary countries under the GSP and CBI programs. Thus, this option would harm the economies of these countries by largely eliminating the current quota premium.

A tariff-rate quota would operate very much like the current absolute quota. As with the current quota, it would be established under the sugar headnote. The main difference is that an absolute quota is inconsistent with GATT Article XI while a tariff-rate quota is not.

Under a tariff-rate quota, some minimum level of duty would apply to an initial 'tier' of imports, say, 1 million tons. For everything imported above the first tier, a substantially higher duty would apply. This duty could be some fixed amount, say, 20 cents per pound, or variable, such as the difference between the domestic support price and the world price. In either case, the effect of the tariff-rate quota would be to prevent or control the import of sugars above the first tier amount.

While all three of these administrative options would bring our import regime into conformity with the GATT, only the tariff-rate quota would simultaneously enable us on an ongoing basis to meet the no cost requirement of the Food Security Act of 1985. For that reason, we have concluded that implementation of a tariff-rate quota is the best of the three administrative alternatives.

REASONS TARIFF-RATE QUOTA IS BEST ALTERNATIVE

Question: I would like Mr. Crowder to explain to me why the USDA believes that the tariff rate quota is the best alternative and if he believes that it is necessary for the President to impose this forthwith.

Answer: I believe I have already provided the reasons why the tariff-rate quota is the best of the available alternatives. Very simply, it is the only alternative which simultaneously brings the import regime into conformity with the GATT and enables us to meet requirements of domestic statute, in particular, the requirement to run the sugar program at no cost to the Government.

We are required to bring our import quotas into conformity with the GATT within a "reasonable period of time." It has been nearly a year since the Panel provided its findings, and, we believe that pushing off implementation of a GATT-consistent import regime much further would put us beyond that reasonable period. It will take us several weeks to implement a tariff-rate quota through Presidential Proclamation, and we have not yet decided on the exact date that we should make it effective.

LEVEL OF THE FIRST TIER OF TARIFF-RATE QUOTA

Question: At what level do you believe the import quota should be set?

Answer: We believe the first tier level of the tariff-rate quota should be set at such amount as is necessary to meet domestic consumption requirements and avoid the forfeiture of sugar to the Government.

LEVEL OF THE TARIFF ON IMPORTS ABOVE THE FIRST TIER OF THE TARIFF-RATE QUOTA

Question: At what level do you believe the tariff should be set to limit imports beyond this level?

Answer: We have not yet come to decision on the level of the tariff on imports above the first tier amount. Historically, world prices over the past 10 years have at times been under 3 cents per pound. The tariff-rate quota would operate to assure that even at these low prices, imported prices could not undercut domestic support levels. Since our duties on sugar are unbound, we could impose at all times a sufficiently high duty, say, 20 cents per pound, that would prevent imports of sugar above the first tier amount and avoid forfeitures of sugar to the Government.

TARIFF-RATE QUOTA AS TARIFFICATION

Question: Do you believe that by moving to the tariff rate quota as it relates to sugar that the U.S. is moving toward tariffication of all U.S. commodity programs? Doesn't this move the U.S. sugar program to a tariffication position?

Answer: Not at all. We look at the tariff-rate quota as a specific response to a GATT finding that our import quotas on sugar are inconsistent with the GATT. It has no bearing on or implications for the operation of other U.S. commodity programs. The fact that this involves the conversion of an absolute quota to a quota system based on tariffs at a time when we are talking about tariffication in the Uruguay Round is coincidental, at best. And, the tariff-rate quota we are talking about for sugar is not at all the same thing we are talking about as tariffication in the Uruguay Round.

Question: What is the official USDA position on changes to specific commodity positions as it relates to the GATT negotiations?

Answer: The United States has tabled a comprehensive agricultural proposal. We are not negotiating on individual commodities. Support and access commitments will apply equally to all commodities. We will not know what changes will have to be made in current U.S. commodity programs until a final agreement has been reached.

UNILATERAL DISARMAMENT

Question: Didn't the Secretary of Agriculture state that he would not unilaterally disarm U.S. agriculture in the current GATT negotiations?

Answer: The Secretary has stated unequivocally that the United States will not unilaterally disarm. The purpose of these negotiations is to create a level playing field in international trade in agricultural products. We can only do that if all countries participate equally.

The changes to the sugar import mechanism are necessary because of the GATT ruling. In other words, even if we were not in the middle of the Uruguay Round, the United States would have to change its sugar import mechanism to meet its GATT commitments. In the same way, we expect the EC to make changes to its oilseed support policies because a GATT panel found that they were inconsistent with the EC's GATT obligations.

Before any GATT Contracting Party undertakes new commitments to reform its agricultural policies as a result of the Uruguay Round negotiations, we would expect them first to get into compliance with their existing commitments since we would not want to give other countries credit in the negotiations for changes in GATT-inconsistent measures. Our trading partners would expect no less from us.

TARIFF-RATE QUOTA AS MEANS OF ELIMININATING PROTECTION FOR THE DOMESTIC INDUSTRY

Question: Doesn't this "change" in the position of sugar move the sugar program closer to tariffication which is nothing but a means to gradually remove all protection of the domestic industry?

Answer: Simply because the import regime would be changed to a system of quotas based on tariffs in lieu of a system of absolute quotas is not tantamount to tariffication. The tariff-rate quota we are considering has no provision in it for a phasing out of tariffs. And, this proposed system is intended to operate in such a way as to meet the no cost requirement of domestic statute. In short, this system would provide the same protection to the domestic industry as under the current system. The question of tariffication is one which is specific to the Uruguay Round, not the proposal on our part to implement a tariff-rate quota to bring the import regime into conformity with the GATT.

TARIFFICATION OF EEC SUGAR PROGRAM

Question: Does it appear that the EEC is positioning to move its sugar programs closer to tariffication to match this U.S. move?

Answer: To reiterate, we do not consider the move to a tariff-rate quota the same thing as tariffication. We intend to implement a tariff-rate quota as the most logical of the available alternatives for responding to the GATT Panel report by bringing the import regime into conformity with the GATT. The EEC has had no comparable panel finding on its sugar import regime, and is not faced with the same situation that we are faced with. With regard to tariffication, no one, including the United States, has implemented or is considering a unilateral tariffication of an import regime. The whole tariffication question is being considered under the auspices of the Uruguay Round.

TARIFF-RATE QUOTA AS UNILATERAL DISARMAMENT

Question: Is that what is meant by not "unilaterally disarming."

Answer: A tariff-rate quota is clearly not a move toward "unilateral disarmament" of the sugar program. This type of import regime operates exactly and provides the same border protection as the current system of absolute import quotas. Since it certainly could not be concluded that a continuation of the current absolute quotas is a move toward unilateral disarmament, there likewise is no basis for asserting that implementation of another border regime that provides the exact same protection is a move toward unilateral disarmament.

US/CANADA BORDER MEAT INSPECTION STATIONS

Question: I would like to mention in passing my continued concern over the issue of compensation of those individuals who invested in U.S./Canada border meat inspection stations based upon information received from USDA just prior to passage of the U.S.

Canadian Free Trade Agreement. Several Idahoans and others along the Northern Tier of States were recruited by USDA to invest in border meat inspection stations just prior to signing and implementation of the CFTA. I believe that USDA knew that the CFTA would bring to an end all meat inspection, either destination which was the norm prior to passage of the CFTA, and border inspection which was to be allowed at first but gradually phased out over time. I discussed this issue with FSIS, and I know that FAS does not have jurisdiction but I noticed that trade relations with Canada were mentioned and I just wanted you to know that I feel that the USDA has a responsibility to these individuals for enticing them into a business which I believe the USDA knew would be "Harmonized" out of existence within the few years.

I see now that the USDA is, on a trial basis for one year, proposing to allow Canada to have in plant inspectors just as U.S. meat packing plants, and allow them to enter the U.S. uninspected at the border. This, in my estimation, eliminates the need for border inspection stations. If the USDA had expected this outcome, why did they as recently as 1988, continue to encourage private investors to build, to Federal specifications, expensive buildings in which to inspect meat imported from Canada?

Answer: Before the FTA, FSIS was gradually ending the practice of destination inspection. In April 1986, the Agency made a commitment to the change in response to recommendations in a preliminary report of the Office of Inspector General (OIG). The OIG recommended that the Agency initiate immediate action to stop permitting importers to ship meat and poultry products to inland sites for reinspection by inspectors who did not specialize in this work. In July 1986, the Agency began the process of ending the practice. Because adequate inspection facilities, did not exist at the U.S.-Canadian border at that time, the Agency's action did not apply to destination inspection of imports form Canada until January 1, 1989. From late 1986 through Spring 1987, Agency staff members had discussions and meetings with parties who expressed interest in building border inspection facilities at the U.S.-Canadian border.

During 1988, many conversations were held with affected businesses about the FTA and its possible impact. The Agency conducted a pilot test form October 3, to October 28, 1988, to determine the feasibility of proposing new procedures for inspection of Canadian product, in preparation for the possible ratification of the FTA. On January 1, 1989, the Agency eliminated destination inspection of Canadian product and began to use the new inspection procedures for Canadian product.

Question: I ask you why would the USDA mislead U.S. citizens who were relying on the USDA for information on this important issue? I fail to see why U.S. citizens receive better information from the Canadians as to what is happening on this issue than U.S. citizens can receive form their own USDA.

I will not go on about this issue but I do want you to know that this is a very disturbing issue and one which I intend to pursue.

Answer: FSIS had always held that the Federal Meat Inspection and Poultry Products Inspection Acts required some type of import inspection. The FTA recognizes this fact: spot checks at the border are specifically authorized. As recommended by the Office of the Inspector General, FSIS performs import reinspection at port of entry using specially trained import inspectors to assure that inspection procedures are applied uniformly. Since the law, at that time, required some type of import inspection, and since FSIS must comply with the current law, FSIS proceeded on the assumption that the inspection stations would be necessary.

This assumption changed suddenly. Negotiations for the "open border" took place in February 1990 and were rapidly concluded. As a result of this change in the law, the need for the inspection stations under the one year test of the policy has disappeared or greatly diminished.

SOIL CONSERVATION SERVICE

QUESTIONS SUBMITTED BY SENATOR BURDICK

FOOD SECURITY ACT OF 1985 CONSERVATION PLANS

Question: Mr. Scaling, you note in your statement that work is on schedule in terms of developing conservation plans for highly erodible land. You also acknowledge that the next step is the implementation of those plans. What obstacles do you see in accomplishing this goal by the end of 1994?

Answer: We are currently in the process of assessing potential problems and solutions to implementing the actual conservation plans that have been developed. Up until now, we have been concentrating on meeting the planning deadline before January 1990. We know that it is going to take a tremendous effort on the part of this agency to provide the assistance producers need to apply the planned conservation measures by the December 1994 Food Security Act implementation deadline. However, we are already off to a good start with implementation complete on about 27 percent, or a little over 36 million acres of land with a conservation plan, and we have until the end of 1994 to complete the job. We will continually reassess the workload and and make adjustments in the field as we progress through this second phase of work.

We already know that we will have to align our field staff with the implementation workload just as we did during the planning phase of the Food Security Act. A related concern is that we do not have a way to accurately predict when producers will request our assistance to implement their plans and this could make the alignment of field staff more difficult. Also, if producers delay their application requests until too near the deadline, we may not have sufficient field staff available to provide the assistance before December 31, 1994. We have no reason to believe that producers will change their practice of requesting implementation assistance soon after their plans are completed, but producers who face economic hardships caused by flooding, drought and other situations are delaying completion of their planned measures and practices. Inclement weather and/or the shortage of contractors to install structural practices could also become a significant obstacle to meeting the deadline for producers who delay implementation until 1994.

Question: Do you think that farmers understand the consequences of not having a plan implemented by the due date?

Answer: Yes, we believe that farmers understand the consequences of not implementing their Food Security Act conservation plans before the due date. We stressed the importance of implemetation when the plan was agreed to, and we follow up with them to make sure that we can schedule the technical assistance to implement the plans. The Agricultural Stabilization and Conservation Service also works closely with farmers to make sure that they do not lose their farm benefits because they have not complied with the conservation provisions of the Act. One potential group of farmers who SCS and ASCS will have to inform concerning the provisions of FSA, who may be presently unaware, are those who have purchased land after the planning deadline of December 1989. For those farmers we will develop a reconstituted FSA plan and will work with them to implement the plan prior to the implementation deadline in December of 1994.

WETLANDS DETERMINATIONS

Question: I understand that the Soil Conservation Service, the Corps of Engineers, the Fish and Wildlife Service and the Environmental Protection Agency are all using the Federal Manual for identifying and delineating jurisdictional wetlands for wetlands identification purposes.

What is your assessment of the cooperation between the agencies on this work?

Answer: Cooperation among the four agencies in implementation of the manual has been very good. As you are aware, adoption of the manual extended coverage for Section 404 permitting requirements under the Clean Water Act to cropland. This could include as much as 55 million acres that are currently used for cropland production. This has caused considerable concern among farmers. We believe that it is possible, however, to alleviate many of the concerns with general permitting and the agricultural and silvicultural exemption under Section 404(f).

QUESTIONS SUBMITTED BY SENATOR COCHRAN

WETLANDS

Question: I see a lot of different numbers quoted concerning the conversion of wetlands to agriculture. Can you cite any conclusive, statistically valid data that indicate the accurate extent of conversion that is occurring currently?

Answer: The only statistical survey of which we are aware that includes wetland conversion is the National Resource Inventory. NRI inventories are conducted by the Soil Conservation Service on a 5-year basis. These inventories conducted in 1982 and 1987, respectively show a difference of only 45,000 acres of types 1-20 wetlands over the 5-year period. The NRI does not substantiate the estimates ranging from 300,000 to 550,000 acres that are being quoted.

Question: There are major concerns by farmers about swampbuster and the requirements for Section 404 permitting. Why is there so much concern today when it wasn't there a year ago? Is this because of some recent policy changes?

Answer: Producers' concern is associated with the development of a four agency wetland identification procedures manual that was adopted by the U.S. Army Corps of Engineers, the Soil Conservation Service, the Environmental Protection Agency, and the Fish and Wildlife Service. The adoption of the manual did not materially change the interpretation of the wetland definition that had been used to implement swampbuster. It appears, however, the Corp may alter the interpretation of the wetland definition that is used for Section 404 permitting. At this time we don't have the final Corp rules and regulations concerning 404 permitting and are uncertain as to the effect they will have on agricultural land use.

Question: I'm told that cropland that was not covered by 404 permitting a year ago is now covered. Why is so much land now considered wetland that was not wetland a year ago? If this is correct, please explain why the definition has changed.

Answer: The four agency wetland identification procedures manual that was adopted by the Corps, SCS, EPA, and FWS did not materially change the interpretation of the wetland definition that has been used to implement swampbuster. However, it will likely alter the interpretation of the wetland definition that is used by the Corp for Section 404 permitting. It will bring land normally used for crop production under the jurisdiction of Section 404 that has not been covered before.

Question: What agricultural practices are currently exempt from permitting requirements? Can land that is exempt from swampbuster rules still be subject to Section 404 permitting requirements?

Answer: We are not knowledgeable of the various exceptions and general permit procedures that are available under Section 404 since that program is not administered by SCS nor USDA. The swampbuster provisions exempt land that was converted for agricultural production prior to December 23, 1985. The Clean Water Act of 1972 has no such exemptions for 404 permitting. Therefore, there are acres that are exempt from swampbuster that are still subject to Section 404 permitting requirements.

Question: If cropland is going to be considered wetland, what actions could be taken to protect agricultural production from unnecessary, burdensome, and intrusive wetland regulation?

Answer: If cropland is going to continue to be considered wetland, several actions could be taken to protect producers from burdensome wetland regulations. These actions would include:

1. Exempt cropland converted prior to passage of swampbuster.

2. Provide exemption for normal farming practices including maintenance of drainage systems and other ways of improvements.

3. Provide established and well known standards for mitigation so that producers will know what is expected if they intend to convert cropped wetlands.

Question: Farmers have made considerable investment in drainage and flood control work of improvement over the past 50-100 years. How can these investments be protected and continue to function effectively if farmers are no longer able to carry out needed maintenance?

Answer: Several actions could be taken to protect producers' investment in land and drainage improvements if cropland is going to continue to be considered wetland. These actions would be similar to those that would protect producers from burdensome wetland regulations, and would include:

1. Exempt cropland converted prior to passage of swampbuster.

2. Provide exemption for normal farming practices including maintenance of drainage systems and other ways of improvements.

3. Provide established and well known standards for mitigation so that producers will know what is expected if they intend to convert cropped wetlands.

CONCLUSION OF HEARINGS

Senator BUMPERS. This is the last of our scheduled hearings. The subcommittee stands in recess subject to the call of the Chair.

Thank you again.

[Whereupon, at 11:53 a.m., Wednesday, April 4, the hearings were concluded, and the subcommittee was recessed, to reconvene subject to the call of the Chair.]

MATERIAL SUBMITTED BY AGENCIES NOT APPEARING FOR FORMAL HEARINGS

[Clerk's Note.—The following agencies of the Department of Agriculture did not appear before the subcommittee this year. Chairman Burdick requested these agencies to submit testimony in support of their fiscal year 1991 budget request. Those statements follow:]

DEPARTMENT OF AGRICULTURE

Agricultural Cooperative Service

Statement of Randall E. Torgerson, Administrator

Mr. Chairman and Members of the Committee, I appreciate the opportunity of appearing before you to present the budget of the Agricultural Cooperative Service. First, I would like to introduce my associates, James E. Haskell, Deputy Administrator, Agricultural Cooperative Service; and Michael C. Cregoire, Acting Director of the Budget and Accounting Division, Animal and Plant Health Inspection Service.

AGENCY MISSIONS

The Agricultural Cooperative Service (ACS) serves as the Department's focal point in providing research, technical assistance and education to farmer-owned cooperatives throughout the United States. ACS is a separate Agency to which the Secretary of Agriculture has delegated responsibilities of carrying out the functions directed by Congress in the Cooperative Marketing Act of 1926. The Agency provides a program of cooperative research, technical assistance, and education to bring about more efficient and effective cooperative operations in support of family farm agriculture and rural communities. ACS also serves as the focal point for the collection and dissemination of statistics on farmer cooperatives and analysis of policy issues affecting farmer cooperatives.

FARMER COOPERATIVES CONTINUE TO RECOVER

Farmer cooperatives continue to progress in their adjustment to the significant changes occurring in agriculture and the impacts on the family farm. Cooperative business volume rose 10.1 percent in 1988 to $66.4 billion. Total net income for all cooperatives was $1.7 billion. The number of organizations (4,937) and overall membership (4.20 million) both attest to continued restructuring in the industries serving production agriculture. This adjustment process includes cooperatives going out of business, and consolidations, as farm operators adapt their organizations to changing times. Most cooperatives by reducing employment and disposing of unneeded and inefficient facilities now appear to be in stronger financial condition than in the mid-1980's when they were experiencing traumatic operating conditions.

RESEARCH, TECHNICAL ASSISTANCE AND EDUCATION

The Agricultural Cooperative Service completed research in a number of areas last year to help cooperatives better adjust to changing industry conditions. These included studies on financial profile of farmer cooperatives, operations of dairy cooperatives, agricultural cooperative theory, the role of cooperatives in rural development, value-added export potential to Pacific Rim countries, alternative methods of financing cooperatives, and major farm characteristics and cooperative use. ACS was involved in 97 formal technical assistance projects in 1989, involving 119 cooperatives. A number of these involved marketing operations, cost analysis, merger studies, and marketing alternatives to traditional row crops. They were as varied as looking at catfish growers' organizational problems to developing new Christmas tree marketing cooperatives. Fifty-one projects involved emerging and developing cooperatives and producer groups representing more than 3,000 members.

The Agency plays an important role in providing education on cooperatives to both domestic clientele and foreign visitors. ACS educational publications are widely used, and our monthly magazine is viewed as a primary source of information for improved cooperative operations. We are conducting an increasing number of director and manager workshops for emerging cooperatives, and hosted 163 foreign visitors from 18 countries in 1989, briefing them on Department functions and policies, as well as aspects as U.S. farmer cooperatives.

EXPANDED RURAL DEVELOPMENT EFFORT

Congress charged the Agency in its budget report for fiscal year 1989 to examine the role of cooperatives in rural development. The request was as follows:

"The committee will expect the Agricultural Cooperative Service to undertake a study of the potential for cooperatives to expand their role in rural development through the provision of services, financing, and economic development to improve the quality of life in rural America."

This study entitled "Cooperatives and Rural Development" was completed and delivered to Congress this past November. It is our hope it will provide a foundation for rural cooperatives to increase their already significant role in improving economic conditions in many rural areas.

BUDGET REQUEST

The fiscal year 1991 budget for the Agricultural Cooperative Service is $4,764,000, with a staff year ceiling of 69. Our FY 1991 budget proposes a $50,000 increase over the current 1990 estimate for increased pay costs.

To continue to serve farmer cooperatives within a stable budget in inflationary times, several adjustments are being made. Only the highest priority research projects having the greatest applicability to cooperatives as a whole are being undertaken. The Agency will continue its technical assistance program to existing cooperatives and our cooperative development activities including field operations in Hawaii, Ohio, and North Carolina.

Mr. Chairman, I thank you for the opportunity to present this statement. We will be glad to respond to any questions.

OFFICE OF THE SECRETARY AND DEPARTMENTAL ADMINISTRATION

STATEMENT OF ADIS M. VILA, ASSISTANT SECRETARY FOR ADMINISTRATION

Mr. Chairman and members of the subcommittee, it is a special privilege for me to appear today to discuss the fiscal year 1991 budget request for the Office of the Secretary, Departmental Administration, GSA rental payments and building operations, advisory committees, hazardous waste management, and the services provided to USDA agencies through the Department's working capital fund. I have with me Larry Wilson, Director of the Office of Finance and Management, Connie Gillam, whose office provides budget services to me and Steve Dewhurst, the Department's Budget Officer.

I believe I have joined USDA at a particularly exciting and challenging time. As you have pointed out in the past, Mr. Chairman, the issues of world agricultural trade and marketing, food safety, the environment, research, rural development and nutrition are formidable. We face these challenges at a time when budgets are austere and our agencies are struggling to meet the needs for their services.

As part of the Secretary's management team, I am charged with the responsibility of assisting in effectively administering USDA programs. The Secretary has charged me with two principal goals: to diversify the workforce and to integrate the information systems agencies use for decisionmaking. Although both of these are of long term orientation, they require immediate attention.

WORKFORCE DIVERSIFICATION

The first major goal is workforce diversification. USDA faces critical workforce problems. As our responsibilities grow and become more complex, we need to acquire the skills to respond to programmatic changes and new technologies. Our traditional recruitment methods have not been entirely successful in meeting these needs. Our scientific agencies face particular problems because enrollment in the agriculture disciplines has been declining. Expertise in fields such as automation and program management is difficult to find. Forty-five percent of the top level staff is now approaching retirement. We must reach out to every possible avenue by recruiting to meet our short-term needs for particular skills and to address the long-term problem of developing the next generation of USDA managers.

In addition, USDA has a responsibility to make its workforce more representative of the national workforce. We must recruit more minorities and make continued employment with us more attractive. We must ensure that the Department's agencies include opportunities for all in their managerial development programs. I am happy to report that we are developing a "workforce diversification umbrella plan" for the Department which will address this issue.

I note that there has been some progress toward this goal. Ten years ago the Department's minority permanent employment stood at 12.8 percent and female employment was 26.7 percent. At the beginning of 1989 these figures had improved to 15 percent and 36.2 percent, respectively. During 1989 minority employment increased from 15 percent to 15.6 percent and female employment increased from 36.2 percent to 37.9 percent.

Over the past year the Department began a multi-year effort to coordinate minority personnel recruitment and retention. We are working closely with the 16 historically black 1890 land grant institutions and Tuskegee University. This year, there will be summer internships for 500 students from these institutions. Career awareness and outreach programs have been held in Chicago and Philadelphia agricultural high schools. Job fairs have been held in Atlanta, Boston, Chicago, San Francisco, and Washington, D.C., and two will be held this month in Texas and Louisiana. We are testing several efforts across the Department to determine what changes in the present recruitment and hiring system will make USDA more competitive within the Federal Government in obtaining a quality workforce representative of all segments of our society.

The vast majority of this effort is being carried out by USDA staff offices and agencies within current resources. We propose in the 1991 budget an increase of $179,000 and 1 staff year to aid USDA agencies in anticipating problems with recruitment and retention and implementing an overall strategy for dealing with these problems. We want to build on our past efforts and expand our ability to inform young people about career opportunities in USDA, and provide educational development assistance to middle and high schools, provide curriculum development to two and four year colleges and create an automated data base so that qualified applicants can be matched up with vacant positions on a Department-wide basis.

SYSTEMS INTEGRATION

Our second goal is to modernize and integrate the Department's administrative, information management, and financial management systems. As you know the Department has made significant investments in automated technology over the past decade. Our annual spending in this area now exceeds $600 million. In past reports this Committee has duly noted the need to closely review the Department's efforts in this area. We want to ensure we are getting the best return on our investment and not duplicating systems. Our agencies do not always recognize the need or the opportunity to integrate their efforts toward our common objective of managing more efficiently and improving our service to farmers, consumers and the general public.

Our most immediate objective is to change the administrative workplace from a paper driven one to an electronic one. In an era of tight budgets our administrative systems must do a better job of serving our program managers at the lowest possible cost. This, in turn, requires that we modernize our administrative process by joining the telecommunications and electronic data processing revolution of the 1990's. We will improve our procurement, personnel, payroll, property management, payments and financial systems at the National Finance Center. We will move to electronic formats and online data systems which will make systems more responsive to our managers while reducing costs. We have a blueprint for change developed by an interagency task force within the Department. To succeed in this effort, we will need this Committee's support and that of many others in the Congress. We expect to phase-in in the next several years elements of this modernization, system-by-system. We hope to accomplish this within existing resources and to use any savings generated for subsequent phases of modernization.

Looking beyond the administrative area we want to help agencies make maximum use of the newest technology in the delivery of their programs. We are developing new long-term Information Resources Management (IRM) plans. Our mission is to provide needed information and technology to support the cost effective delivery of programs to the public. This requires an IRM framework with common data and strategic elements so that information collected by one agency can be used by other agencies, program managers, and top policy managers. This in turn will help to reduce the burden we place on farmers and other constituents now asked to provide the same information by different agencies. Success in this effort involves the creation of common departmental standards, the resolution of issues concerning data security, and the setting of short and long term objectives. Our strategic plan will provide a framework for our overall effort.

Mr. Chairman, I would now like to turn to the specific budget requests which have been made for the activities in my area.

OFFICE OF THE SECRETARY

Funding for the offices of the Secretary that provides policy oversight and direction to the Department is in 11 separate appropriations. The General Accounting Office's Report to the Secretary of Agriculture, Interim Report on Ways to Enhance Management, October 1989, mentions, as a weakness, the greatly restricted flexibility of the Secretary to shift resources to meet an emergency. I am aware that a single appropriation for the Office of the Secretary has been requested repeatedly. We again make such a request, in the interest of efficiency and flexibility. A consolidated account will increase the Secretary's ability to assign and redirect resources among his key policy officials. We would, of course, keep the Committee informed of any shift in resources.

The Secretary is not trying to avoid the oversight and the direction of this Committee by requesting a consolidated account. He needs the advice and assistance of Congress to address the important agricultural issues facing the Nation today, and to keep American agriculture competitive in an increasingly integrated world market.

The fiscal year 1991 budget request for the Office of the Secretary totals $7,786,000. This is a net increase of $492,000 above the current estimate for fiscal year 1990. The net increase is composed of program increases of $1,282,000 partially offset by program reductions of $790,000: The program increases consist of $150,000 for two additional staff years and related costs for the Under Secretary for Small Community and Rural Development. We need the increase to emphasize the development and implementation of rural revitalization initiatives. These initiatives include such activities as rural development programs for the creation of more jobs, and encouragement of private sector participation in guaranteed lending. We also request an increase of $852,000 to cover the costs associated with pay raises and $280,000 for increased operating costs.

A decrease of $790,000 reflects the expiration of the one-time appropriations for special programs on farm exports and investigation of foreign competition.

DEPARTMENTAL ADMINISTRATION

To develop the fiscal year 1991 budget for Departmental Administration, we looked at the challenges we will face during the 1990's. Several key problem areas will be addressed through our efforts to diversify the workforce and integrate systems. These include: Recruitment and retention of a diverse, representative workforce; assessment of skills needed by USDA agencies to meet changing program missions; development of the next generation of USDA managers and supervisors; development of integrated information systems that meet the planning and decision making needs of managers and supervisors; management of data and information sharing; improvement and modernization of financial reporting, and administrative systems; development of small and minority owned businesses in rural areas; and encouragement of small and minority participation in Departmental activities and contracting.

These areas require an investment of resources. Yet, we cannot move on all fronts simultaneously. We must pace our efforts. We are mindful of the need to constrain Federal spending. We are targeting areas with the most potential for change. Our modest increases will improve the operational efficiency and effectiveness of the Department.

For Departmental Administration, we request an increase in fiscal year 1991 of $1.3 million. This is 6.0 percent above the fiscal year 1990 appropriation of $22.0 million. Within that $1.3 million increase is a request for $726,000 for increased pay costs. Over the past several years the administrative Staff Offices have absorbed all or major portions of the annual pay cost increases. As a result, we have had to freeze hiring and shift workloads and priorities. These actions result in delayed Department-wide initiatives, concentration of resources on "worst case only" problems, and a general erosion of oversight and guidance to USDA programs and activities. We have attempted to maintain productivity through increased automation. However, machines cannot fully substitute for the personnel needed to conduct our activities. Current salary increases for Senior Executive pay and the requested 50 percent of the fiscal year 1991 pay increase cannot be absorbed without drastic, adverse impact upon staffing our on-going activities. We need this increase to keep pace with the workload and pay our existing staff.

The $1.3 million increase also contains $559,000 for six program increases among four of the Staff Offices. Briefly, these include:

—An increase of $80,000 to increase technical assistance, training, and maintenance of automated personnel information systems at the National Finance Center. This vital database must be maintained, and both USDA and non-USDA users must be trained to use it.

—An increase of $179,000 and 1 FTE for USDA's new recruitment strategy, which has been discussed previously.

—An increase of $23,000 to allow the Department to meet the OMB Circular A-50 "Audit Follow-up" requirements to report semi-annually to Congress on management actions for audit resolution.

—An increase of $137,000 to develop and manage the central USDA motor vehicle information system, as required by the Consolidated Omnibus Budget Reconciliation Act of 1985.

—An increase of $90,000 for the Department to carry out the Small and Limited Resource Farmer Initiative under the Farm Credit Act of 1987. The Office of Advocacy and Enterprise will use the added resources to review state agencies' activities as they relate to FmHA programs, put on conferences for small or limited resource farmers, provide technical assistance and conduct training for agency personnel.

—An increase of $50,000 and 1 FTE for the Department to respond to three recently enacted laws related to small, minority businesses and rural development. These resources will be used to expand minority business participation in government contracting and to encourage rural development through business planning.

The final increase within the $1.3 million is $48,000 for the payment of USDA's share of the National Communications System (NCS) as required by National Security Decision Directive (NSDD) 201. This charge is USDA's share of the NCS contract for development of a Nationwide Emergency Telecommunications Service (NETS).

RENTAL PAYMENTS AND BUILDING OPERATIONS

The larger of these two appropriations finances a portion of the Department's payment to the General Services Administration for space rental and related costs. In fiscal year 1991, the Department requests $49,305,000 for its space inventory. The fiscal year 1991 request is $268,000 over the current fiscal year level of $49,037,000. This budget request also retains $3.0 million of the rental payment for non-recurring repairs.

The Building Operations and Maintenance appropriation funds the Departmental staff and support services to operate and maintain the downtown Headquarters complex. For fiscal year 1991 the request is $25,093,000, an increase of $2,103,000 over the current fiscal year level of $22,990,000. Part of this increase, $2,022,000, is for annual adjustments required by the Fair Labor Standards Act and the Services Contract Act. There are other operating costs that will increase when operations and maintenance contracts are renewed.

ADVISORY COMMITTEES

In the fiscal year 1983 Appropriations Act, the Congress established a single appropriation for USDA Advisory Committees, other than those funded from the Forest Service appropriation or user fees. The fiscal year 1991 request of $1,407,000 is $87,000 less than the current fiscal year 1990 level of $1,494,000. We propose to fund 35 committees under this level, including the National Commission on Agriculture and Rural Development. Within the fiscal year 1991 request the National Plant Genetic Resources Board and the Board on Swine Health are eliminated at a savings of $38,000. Operating levels for several committees have also been adjusted.

HAZARDOUS WASTE MANAGEMENT

A serious challenge to the Nation is the safe disposal of hazardous waste materials. Past disposal methods often created serious environmental problems. These past problems require expensive cleanup programs.

Our fiscal year 1991 budget emphasizes our resolve to play a more active role in protecting the Nation's ground water supplies. USDA's program promotes compliance with the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and the Resource Conservation and Recovery Act (RCRA). Virtually all the projects identified by this program involve ground water contamination or have the potential for such contamination unless corrective action is undertaken. Sources of contamination include leaking underground storage tanks, abandoned mining wastes, inadequate pesticide disposal and seepage from sanitary landfills or dumps.

We request $29,586,000 for this program in fiscal year 1991. This is a net increase of $9,659,000 above the $19,927,000 available in fiscal year 1990 after the Gramm-Rudman-Hollings sequestration. The funds allow us to help USDA's agencies meet our goals: to protect ground water resources, to comply with the various environmental laws, to attack problems posed by past hazardous waste disposal practices and to conduct cleanup activities.

This request is the result of a site-by-site review and includes only sites that are currently not in compliance with EPA standards, or that we anticipate will not be in compliance by fiscal year 1991.

WORKING CAPITAL FUND

Finally, I will outline our plans for the Departmental Working Capital Fund for fiscal year 1991. In years past you have heard examples of accomplishments by our Fund-supported activities, enabling USDA program agencies to take advantage of the economies associated with centrally managed administrative services. I am impressed with the quality of service and cost effectiveness of these activities.

However, it is important to reflect upon our goals and our direction in providing administrative services to agencies of the Department. The Fund has expanded greatly since we established a Comptroller to manage the Fund's finances in fiscal year 1983. In fiscal year 1990, we are providing support to 17 service activities in Departmental Administration and 2 activities in the Office of Public Affairs with a budget of $152 million and 1,665 staffyears. Our current funding level is more than twice what it was ten years ago.

The National Finance Center will build on its well-deserved reputation for efficient management and effective services. We are integrating many of our administrative management systems. This will result in improvements in both system efficiencies and cost effectiveness. When fully implemented, USDA agencies will avoid multiple entry of data into different systems, reduce data entry errors, and improve productivity.

Regarding the National Computer Centers, the current state of mainframe computer and telecommunications technology allows us to pursue operating and cost efficiencies in large-scale ADP applications. Building on past successes, most notably the consolidation of the Washington and Kansas City Computer Centers in fiscal year 1988, we will examine the idea of mutual backup systems. Specifically, some IBM system applications operated in support of users of the National Computer Center in Kansas City can be run on systems managed by the National Computer Center in Fort Collins. Similarities in system architecture at the two centers allow each to serve as a backup for the other in the event of power interruptions or natural disasters. We will explore this idea further to reduce operating costs for users of both centers. Costs for ADP services in fiscal year 1991 will be $47,062,000. This includes costs for the National Computer Centers, telecommunications services, and services in support of the Office of the Secretary.

We have requested an appropriation of $3,750,000 in capital procurement support for the Working Capital Fund in fiscal year 1991. This amount would complete the capital improvement initiative USDA and Congress began in fiscal year 1985. For fiscal year 1991 we estimate that the requested appropriation plus additional available funds would provide $15 million for capital equipment acquisitions. These purchases will allow Working Capital Fund activities to avoid $22,639,000 in lease costs over the expected useful life of the assets purchased. The net cost avoidance for Working Capital Fund users from these purchases will be $7,616,000. Only assets that promise to yield lease cost avoidance will be purchased.

These are our most prominent initiatives for fiscal year 1991. They do not diminish the ongoing efforts of our Working Capital Fund activity centers, which consistently strive to provide our program agencies with the highest quality, most cost effective services available. All Working Capital Fund activities are subject to oversight mechanisms that guarantee responsiveness to agency needs. We employ an interagency review board to represent the user perspectives of our program agencies. The Working Capital Fund Comptroller serves as day-to-day financial management officer. I am the individual ultimately responsible for the financial health of the Fund. The regular array of Departmental and Executive oversight groups also review Working Capital Fund activities. This structure has demonstrated its effectiveness in managing the costs and operations of Working Capital Fund-supported activities.

I believe that the $141,555,000 in recurring operations costs and $15,023,000 in capital procurement allocations, including $3,750,000 in appropriated support, reflect our continuing commitment to cost effectiveness and quality service.

This budget supports the overall policy thrusts of the President's fiscal year 1991 budget. Thank you, Mr. Chairman, for the opportunity to discuss USDA's goals and objectives. I will try to answer any questions you or the Committee may have.

ECONOMIC RESEARCH SERVICE

STATEMENT OF JOHN E. LEE, JR., ADMINISTRATOR

Mr. Chairman and members of the committee, I am pleased to appear before you again; this time to present our proposed budget for fiscal year 1991.

The 1990's will be challenging for American agriculture. The dramatic changes in Eastern Europe and the Soviet Union could affect the entire global geopolitical balance, reshape world markets, alter the policy and spending priorities of nations, and shape the future of American agriculture. Changes will occur, along with their attendant risks and uncertainties.

Congress and the Administration will respond to the needs of farmers and rural Americans as they adjust to the changing world. What those needs will be and what the public policy response to them will be are uncertain; what is certain, however, is that policymakers will need accurate, objective, and timely economic analysis of the costs and benefits (and their distribution among various sectors of the economy) of alternative policies and programs. That is where the Economic Research Service comes in, with its economic analysis and monitoring programs. And that is why the Administration has again demonstrated its support for the programs of the Economic Research Service in its fiscal year 1991 budget request.

Our fiscal year 1991 budget request is for $56 million, a $5-million or 10-percent increase over what you appropriated for ERS in fiscal year 1990. This increase is comprised of two program initiatives and funds for some pay-cost increases.

FOOD SAFETY INITIATIVE

ERS's fiscal year 1991 budget request includes an increase of $1.6 million for analysis and evaluation of primary and secondary information and survey data on food safety issues and agricultural chemical use to provide analytic support for USDA food safety and pesticide assessment activities and the evaluation of the costs and benefits of alternative public and private control strategies; and to assess the impact of pesticide regulation and residue control programs on food safety.

These activities will focus on impacts on yields, production, input use, consumer supplies and prices, farm incomes, government program costs, production costs, international competitiveness, worker safety, and the overall quality of the environment.

Food safety is a potentially explosive issue that can, because everyone involved may not have complete information on or understanding of the risks, disrupt markets and cause substantial losses to consumers, marketers, producers, and suppliers of agricultural inputs. Concern about food safety has increased significantly in recent months. The issues and concerns span the entire spectrum of hazards from manufactured agricultural chemicals and animal drugs to naturally occurring microbial hazards such as salmonella in meat and poultry and aflatoxin in grains and peanut butter. In addition, new safety issues are being raised by biotechnology. The entire food system has been affected, from farms and farm workers to marketers, processors, retailers, and consumers. Significant concerns at home and abroad have also been raised about the safety of agricultural imports and exports.

ERS's fiscal year 1991 Food Safety Initiative, which is a component of USDA's departmentwide Food Safety Initiative, calls for developing a broad framework within which to design expanded data collection activities, do cross-disciplinary research, and support informed public policymaking and program management and expanded public education. Without this framework, the potential for translating research findings into more timely, cost-effective programs and private sector practices is limited.

Here are a few illustrative examples of the questions that ERS will try to answer:

1. How will not using or reducing the residue level of a particular pesticide affect farmers' profits and consumers' costs?

2. What are the economic costs to society of continuing to use a particular pesticide and what are the distribution of those costs among various groups and/or regions?

3. If pesticides were regulated only for farmers who participate in Government programs, what would be the overall effectiveness of the regulation and the distribution of costs and benefits?

4. How will consumers respond to the tradeoff between price and exposure to risk?

5. How will food retailers behave and how will their behavior affect producers and consumers?

6. How will U.S. food safety regulations affect U.S. competitiveness in international trade?

WATER QUALITY INITIATIVE

ERS's fiscal year 1991 budget request includes an increase of $2.1 million to enhance the statistical reliability of agricultural chemical use data. This will include building and maintaining an expanded data base in cooperation with NASS and providing analytical components of the Department's water quality initiative along with SCS, ES, ASCS, ARS, and CSRS. While contributing mainly to the goals of the President's Water Quality Initiative, these activities will complement food safety analytical capabilities.

Concern is growing among farmers, rural communities, input suppliers, consumers, and State governments about the presence of agricultural chemicals in water systems, particularly ground water. The President's fiscal year 1990 Water Quality Initiative outlines a long-term, challenging, multiagency program to develop information and analytical bases for addressing and resolving these concerns.

USDA's Water Quality Program, which comprises the bulk of the President's initiative, has three major components:

1. research and development activities aimed at improving understanding of the mechanisms by which agricultural activities affect water quality, and developing new technologies and management systems that maintain agricultural productivity while reducing the chance of water degradation;

2. education and technical assistance efforts to encourage and assist producers in applying new and improved agrichemical and waste management and production practices; and

3. development and analysis of comprehensive, consistent, national data bases that permit evaluation of the economic consequences of alternative policies for reducing the adverse effects of agricultural activities on water quality.

ERS will play an active role in each of the major components of the USDA water quality program and is a lead agency for the program's Data Base Development and Evaluation component.

Historically, ERS, in cooperation with NASS, collected detailed pesticide use data at the national and regional levels. National pesticide use data collection was scaled back during the 1970's and was discontinued in 1982 because of shifting priorities and dramatic increases in the costs of such survey efforts. While FDA monitors food for pesticide residues and USDA monitors food for naturally occurring toxins, no data are available to associate farm practices with food safety measures or to help target monitoring activities.

EROSION OF ERS'S "BREAD AND BUTTER" ACTIVITIES

The fact that ERS's budget has been nominally increasing over the years belies the fact that the real purchasing power of the funds has declined due to inflation. This point is best illustrated by the number of staff that ERS can afford to maintain. That number dropped below 800 in fiscal year 1988 and fiscal year 1989; down from a historical high of over 1,200. The fiscal year 1991 staff-year ceiling for ERS is 835. This reduction in staff has taken a heavy toll on ERS's mainstay programs of domestic commodity analysis, world agricultural market analysis, and rural development research and monitoring.

Domestic Commodity Analysis.—ERS conducts a program of economic outlook and intelligence, analysis, research and associated work relating to domestic and international aspects of agricultural commodities. ERS develops and maintains national and international estimates and forecasts of production, trade, consumption, and prices of commodities. The information is used by farmers, consumers, traders, analysts, policymakers, and other decisionmakers in the food and fiber system.

To improve agricultural profitability, American farmers need up-to-date data and economic analysis about production, demand, and prices for their farm products. Such information helps farmers evaluate economic conditions and determine when to buy and sell. Consumers, policymakers, and others need the data and analysis to make informed decisions relating to consumption, policymaking, program management, and competitiveness.

World Agricultural Market Analysis.—The world has changed dramatically during the last decade, and more changes are expected. World financial and commodity markets have become global and interdependent. Technological change occurs at an increasing rate. Technology is transferred among countries with increasing speed. Changing competitive conditions elicit both increasingly protectionist policies and efforts to reform national policies and liberalize world markets. The centrally planned economies are in the midst of major political and economic reform as their populations seek better economic conditions and greater political freedoms.

The less developed countries are under great stress as they struggle with internal policy reform and staggering debt burdens. The European Community is seeking total economic integration of its different national economies. This integration will require profound changes in individual countries and critical decisions on how an integrated Europe will relate to the rest of the world. Japan is undergoing great change and stress in adjusting to its relatively new role as an economic superpower. The economic positions of countries in the global economy continue to change. Some countries are rapidly gaining influence and others are losing influence.

USDA must have the capacity to understand, anticipate, and analyze these changes and their implications. Economic research helps decisionmakers anticipate forces for change and understand how changes affect the role of U.S. agriculture in world markets.

Rural Development Research and Monitoring.—Gaps exist between urban and rural people in income, employment opportunities, community economic viability, and overall standard of living.

Lower per capita incomes and less access to national levels of public services, plus higher unemployment and poverty rates make rural life increasingly difficult for many individuals. Together with a declining farm population and low rates of new job formation in other sectors, those factors are causing population losses in rural communities in many States.

Research on economic problems and measures that local leaders and public officials at the local, State, and national levels can adopt to promote rural community economic development is vital. Because the agricultural sector is a relatively small and steadily shrinking employer of rural people, economic development must focus largely on other economic sectors where growth is possible. And building a more sustainable economic base for rural areas benefits farmers as well as the nonfarm majority. It provides the sources of income that allow many to continue farming and protects farmers in some regions from living in ever greater isolation.

The small and diminishing rural economic development research and monitoring program in ERS, often cooperating with researchers at land-grant universities, is by far the largest source of information for policymakers at every level of government on rural conditions, rural economies and their problems, and analytically based development options.

CONCLUDING REMARKS

Despite the decline in staff in ERS, we recognize the need to do our part in helping to reduce the Federal budget deficit. Our fiscal year 1991 budget request, therefore, calls for absorbing some portion of the increased costs of doing business. We will attempt to minimize the impact of this by working to achieve greater operating efficiencies wherever we can. And we will continue to redirect our base resources to the highest priority work, as the issues and needs for economic analysis evolve.

ERS has been a good steward of the resources entrusted to it by the American public. As we approach the challenging times ahead, I want to reaffirm to you that I will continue to take that stewardship seriously.

Thank you, and I will be happy to respond to your questions.

FEDERAL GRAIN INSPECTION SERVICE

STATEMENT OF DAVID R. GALLIART, ACTING ADMINISTRATOR

Mr. Chairman and Members of the Committee: We appreciate the opportunity to present the Federal Grain Inspection Service (FGIS) budget for fiscal year 1991.

In addition to our specific budget request, this presentation includes an overview of the Agency's mission and program for fiscal year 1989.

The total Agency budget request for fiscal year 1991 is $47.6 million; the fiscal year 1990 budget is $45.0 million. In this request, $10.4 million is for existing appropriated activities, new initiatives, and inflation. The fiscal year 1991 request includes: Standardization activities; compliance activities; international monitoring; and Advisory Committee functions.

New initiatives involve: Food safety; objective technologies; and standards development.

Inspection and Weighing activities, funded by user fees, are being requested at $37.2 million. In fiscal year 1989 revenues from user fees were $35.6 million; obligations were $35.4 million.

Legislation has been submitted for fiscal year 1991 to "recover costs of establishing standards and specifications for agricultural products." Sections within the U.S. Grain Standards Act (USGSA), the Agricultural Marketing Act of 1946 (AMA), and other Federal statutes will be amended by this Bill. FGIS operates under the USGSA and AMA.

The basis for the change in funding is that the standards provide a uniform language which facilitates marketing and provides a credible basis for trade among producers, traders, and buyers. The standards and the research upon which they are based are used primarily by the official inspection system which should bear the cost. Incremental costs to industry would result in an increase in the existing fee structure, and would be minimal compared to the benefits received.

The grain industry has recognized our previous and continued efforts to provide a cost effective user fee funded service. FGIS dependence on user fees has increased from 59 percent in fiscal year 1985 to 83 percent in fiscal year 1989. During this time, FGIS has improved both its service and its public perception as a governmental agency. We will continue to interact with the industry and solicit its support.

FGIS is addressing several issues in support of the proposed 1990 Farm Bill. For example, aflatoxin testing has increased dramatically this past year even though it is not required for domestic or foreign shipments. Testing procedures have been refined, standardized, and implemented. As part of the Department's Food Safety Program, the Farm Bill includes a recommendation that all corn that is exported from the United States be officially tested for aflatoxin.

Other grain quality proposals are included in the Miscellaneous Provisions of the proposed Farm Bill. These include: random testing of grain that may contain chemical residues from various sources such as insecticides, herbicides, and fumigants; separating broken corn from foreign material in the corn standards; separating broken kernels from foreign material in the sorghum standards; reevaluating the present limit of toxic seeds in grain; seeking other alternatives to the Office of Technology and Assessment's recommendation that the approval and oversight of official inspection equipment be transferred to the National Institute of Science and Technology; and conducting a study to determine whether to require mandatory retrofitting of dust collection systems to preclude the reintroduction of dust to the grain stream.

Our discussion for fiscal year 1991 will revolve around new program initiatives rather than the methods of funding.

Food safety initiatives involve mycotoxin detection, pesticide and chemical residues, and new methods to detect off-odor in grain. A considerable amount of time and work has been devoted to developing methods to test grain for natural or chemical contaminants, establishing specifications, evaluating commercial test kits, and training field personnel in the application of the kits. Several new aflatoxin test procedures were approved by FGIS in order to identify contaminated corn. The initial work this fiscal year in the area of pesticide residues will be used as a reference point that will be expanded in 1990 and increased in 1991.

Grain grading methodology work to establish more objective and improved procedures will continue. The Quality Assurance and Research Division's initiatives will include: continuing work on wheat classification; continuing work using near infrared reflectance and transmittance measurements to develop calibrations for protein, starch, and oil in corn; completing the final phase of a multi-year project to automate the Kansas City Technical Center. This project provides the basis for the FGIS

Technical Center and field office data to be entered into a centralized system that will assist FGIS to better ensure the integrity, quality, and effectiveness of the national inspection system.

Additional initiatives involving equipment specifications and tolerances, single kernel moisture content, laboratory scale automation, cleaning grain, automating the grain inspection system, and a hardness-based classing system for wheat varieties are among the other grain grading initiatives.

Rapeseed (canola) is scheduled for standards development; rice and barley are scheduled for revisions in fiscal year 1991. Economic impact studies will be conducted to assess the potential impact on changes in standards for rice and rapeseed. Existing barley standards will be revised, as needed.

Quality insurance and management training will continue, with emphasis in providing high quality analytical services and cost effectiveness to the grain industry.

Dust explosion suppression is a continuing problem in the grain industry. The Department, in conjunction with other Federal agencies, has initiated a contract with Poland on explosion suppression. The Department anticipates applying the principles of suppressing coal dust explosions to grain dust.

INSPECTION AND WEIGHING SYSTEM

The official inspection system encompasses about 5,087 employees. Of this total, 879 are FGIS employees and 4,208 are non-Federal personnel employed by private agencies and States designated or delegated by FGIS to provide official inspection and weighing services. Direct on-line inspection and weighing of grain at 62 export elevators is provided by FGIS employees. Eight delegated States employ approximately 2,084 employees and provide mandatory official services at an additional 26 export elevators. Under direct FGIS oversight, the remaining 2,124 employees, employed by designated agencies, provide permissive inspection and weighing services.

FISCAL YEAR 1989 PROGRAM

During fiscal year 1989, FGIS inspected 112.1 million metric tons of export grain; this is slightly less than the 113.4 million metric tons inspected for export in fiscal year 1988. Overall, inspection and weighing activities were down, while the number of tests for aflatoxin inspections tripled.

Increased public awareness of the presence of aflatoxin in corn played a definitive role in FGIS programs in fiscal year 1989. Effort was concentrated on evaluating commercial aflatoxin test kits to determine suitability, consistency, and accuracy at the field level. Procedures were established and field employees were trained in the use of these kits.

The public awareness in food safety resulted in increased work on methods to identify pesticide and chemical residues in grain. A gas chromatograph/liquid chromatograph/mass spectrophotometer was purchased to develop a baseline which will be used to evaluate levels of common pesticides on grain and oilseeds. Evaluation of "quick" test kits for pesticides will begin soon thereafter.

The impact study on combining dockage and foreign material in wheat as a grading factor was completed and provided to the House and Senate this past June. Results from the report show that insufficient incentives exist for industry to cover the cost of additional cleaning of wheat. We will pursue the clean grain issue further in fiscal year 1991 when we issue a research agreement to assess the economic impact of "cleaning" grain as it moves from farm to market.

Soybean protein and oil testing services were announced and implemented along with a program for monitoring testing at all field locations.

The Agency published a CU-SUM (Uniform Shiplot and Combined Lot Inspection Plan) proposal to tighten the tolerances used to compensate for normal statistical variations, limit the number of field review inspections, and to average review inspection results as long as inspections are in statistical tolerance. We anticipate that the final regulation will be published during 1990.

The FGIS Advisory Committee, established under the USGSA to advise the Administrator on matters pertaining to the implementation of the United States Grain Standards Act, was active in fiscal year 1989. Issues addressed by the Committee included: domestic intermarket quality; uniform shiplot loading plan; soybean oil and protein testing; and the Office of Technology Assessment's grain study.

Methodology development in fiscal year 1989 included wheat hardness; biochemical detection of insects/insect parts in stored grains and processed grain products; economic impact studies on changing standards for wheat and sorghum; shriveled and wrinkled soybeans, and redefining grade factors for broken and/or foreign material in corn. Information gained from these activities will be put to use as the Agency moves into its fiscal year 1990 program.

Civil penalties totaling $20,000 were assessed against two grain facilities for deceptive loading practices. This is the first time the Agency has used civil penalties for violations of this type. There are several other cases being developed for similar action. The Agency has found that civil penalties are an effective administrative tool to affect a more timely action.

FGIS initiated further actions to implement the Grain Quality Improvement Act of 1986 (GQIA). The Agricultural Stabilization and Conservation Service (ASCS) agreed, through a cooperative agreement, to assist FGIS by reporting violations of the GQIA in facilities which are examined by ASCS personnel, and by distributing, through county ASCS office operations, educational information about the GQIA to producers and warehousemen licensed under the U.S. Warehouse Act. The National Grain and Feed Association also cooperated with FGIS in the development of a poster explaining the GQIA provisions for distribution to the grain industry.

EQUAL EMPLOYMENT OPPORTUNITIES

FGIS is aggressively pursuing actions to assure implementation of its Affirmative Employment Plan. Program managers are active in establishing the plan and insuring that goals are achieved or exceeded.

FGIS contracts with small business 8(a), minority-owned firms for automated data processing services. In addition, work will continue on wheat classification projects with assistance from a vocational service organization which employs and trains the handicapped.

SAFETY

During fiscal year 1989, 10 grain dust explosions occurred. These resulted in five injuries and two fatalities. No Federal employees were involved in these explosions.

FOREIGN COMPLAINTS

Foreign complaints have been on a downward trend; there were 59 in fiscal year 1987, 35 in fiscal year 1988, and 25 in fiscal year 1989. Two complaints were filed alleging the presence of aflatoxin in corn. Investigation resulted in no verification of aflatoxin contamination. No wheat protein complaints were received during 1989, compared with 6 in 1988, and 15 in 1987.

CLOSING

Mr. Chairman, this concludes my testimony. I would be glad to answer any questions you or other members of the Committee may have at this time.

OFFICE OF THE GENERAL COUNSEL

STATEMENT OF ALAN CHARLES RAUL, GENERAL COUNSEL

Mr. Chairman and members of the Subcommittee, I am pleased to appear before you this morning to discuss the Office of the General Counsel's fiscal year 1991 appropriation request.

INTRODUCTION

The Office of the General Counsel (OGC) is the national law office serving the Department of Agriculture. As a free standing USDA agency integrating all the Department's lawyers, OGC is well positioned to provide independent legal advice to our Departmental clients. We provide a full range of legal counsel and services to the Secretary of Agriculture and each of the Department's 38 agencies and offices. Our full staffing levels are approximately 242 attorneys and 145 support staff in the Washington, D.C., headquarters and the 22 field locations that comprise our five regions across the United States. Fifty-three percent of our personnel is in the field.

FISCAL YEAR 1991 BUDGET REQUEST

For fiscal year 1991, we are requesting $23.5 million in direct appropriations. Of the almost $2 million increase, $431 thousand will be used for a new program initiative of pre-decisional environmental legal services, $135 thousand to complete our office automation system, $172 thousand to allow for personnel transfers within the office, and $1.3 million—or 63 percent—to cover increases in pay rates and other nondiscretionary operating costs.

GENERAL COMMENTS

As you know, the basic question posed in all recent OGC budget testimony has been how to meet the burgeoning increase in demand for services while holding the line on spending. Last year, we stated that over the past ten years the number of legal matters, particularly cases, referred to this office has increased 350 percent while our major resource—our people—has increased only 12 percent.

At the end of the 1979 fiscal year, with a 343 staff-year authorization, OGC was responsible for over 10,000 cases of which approximately 8,500 were civil lawsuits. By the end of fiscal year 1988, with a 385 staff-year authorization, the numbers were 45,000 and 38,000, respectively. To demonstrate the growth another way, the average number of cases for which each attorney was responsible grew from 54 to 176 over the same ten-year period.

Today, I can report that we are beginning to make some headway in reducing our civil litigation caseload. The figures for the end of 1989 as compared to 1988 show a slight decrease. We believe this results from several factors, including changes made by the Congress to aid farmers which have reduced the need for litigation, state mediation laws which affected third party litigation against USDA borrowers, successfully filling vacancies and increasing staff year usage. This good news, however, may only be temporary; we anticipate a substantial number of new cases in the Farmers Home Administration farm program loan area.

Given our current responsibilities, our personnel resources are spread very thin. In fact, an informal survey we have conducted shows that USDA has the second lowest ratio of General Counsel staff to total program staff among all cabinet departments—with only the Department of Veterans Affairs having relatively fewer lawyers. At the same time, USDA's legal work is among the most complex and diverse of any department. Since our on board strength is not quite up to our authorized ceiling, I have initiated an aggressive recruitment program to fill the remaining vacancies as soon as possible this fiscal year.

There are several areas of our current work that I would like to highlight to demonstrate how OGC serves the Department in ways that go well beyond the processing of cases.

As you well know, many of the major provisions of the five-year farm bill enacted in 1985 expire this year. OGC has been involved in development and preparation of the Administration's 1990 farm bill proposals. As farm legislation moves through the Congress this year, we will continue to provide considerable legal advice, legislative drafting and analysis with regard to this legislation.

OGC greatly assisted Department officials in developing the Administration's policy on food safety regulation and legislation concerning pesticides and pesticide residues in food. We participated in drafting proposed legislation that meets the President's Food Safety Plan and will continue to review and comment on other proposed legislation introduced in Congress concerning food safety.

The steadily increasing prominence of agriculture in the international trade of the United States continues to magnify the demand for legal services in this area. OGC has provided legal advice with respect to United States' proposals on agricultural trade in the Uruguay Round of GATT negotiations, and this work is expected to accelerate as the round approaches completion at the end of 1990. We have also been actively involved in a significant number of GATT dispute settlement proceedings involving agricultural commodities and products.

In addition, I have recently obtained authorization from the Department of Justice for our attorneys to represent the Department's interests in a limited number of natural resources appeals each year before the Federal Courts of Appeals. I believe this will enhance the ability of OGC attorneys to bring their client-specific knowledge to bear on these cases at the appellate level, as well as to sharpen our legal analysis of issues that will have a significant impact on our clients.

PRE-DECISIONAL ENVIRONMENTAL LEGAL WORK

Now I would like to turn to the specifics of our budget. I am requesting an increase of $431 thousand, which corresponds to 13 staff years, to enable us to perform substantial pre-decisional environmental legal work for the Forest Service. This is a necessary, new program initiative to support an effective and aggressive approach to environmental legal work.

The Department's management of national forests has been seriously disrupted by adverse judicial decisions, litigation and administrative appeals involving environmental issues. The Forest Service's decisionmaking has been challenged in recent years under numerous statutes enacted in the past two decades to protect environmental quality. The environmental challenges are often based on the agency's allegedly inadequate documentation of its decisions. Litigation losses have resulted in declines in timber sales, and delays or cancellation of development of recreation sites, roads, land exchanges, mining and mineral leasing and other programs.

We believe that the best strategy for the Department is to form national teams to provide significant predecisional legal services to the Forest Service, especially on critical policy initiatives and projects. The most valuable contribution that OGC can make to the defensibility of agency action is early involvement in the preparation of environmental and decision documents.

Right now, OGC is for the most part only able to respond to the Forest Service's legal needs in the environmental law and administrative decisionmaking area by providing post-decisional legal services when a dispute arises. This service strategy may be suited for a situation where there are few administrative appeals and a low potential for judicial review, and when a single judicial decision does not have broad program consequences.

However, a largely post-decisional practice is just not effective in the current state of environmental law and jurisprudence. The number of administrative appeals of Forest Service decisions has dramatically escalated in the past five years, from 439 in 1984 to 1,291 in 1989. The far ranging significance of environmental litigation is best illustrated by the broad programmatic injunction issued in the spotted owl case which involved 168 timber sales. Under current statutes, a single case can have devastating program consequences.

This new preventive law strategy to assist the Forest Service cannot be absorbed within existing resources. The existing caseload precludes the attorneys currently assigned to Forest Service work from participating substantially in pre-decisional planning activities. Therefore, we are requesting approval of this modest increase that would permit us to add ten attorneys and three support staff.

OFFICE AUTOMATION

I am very happy to report that the office automation efforts initiated over the past two years have been effective and are beginning to be of great help to us everyday. With the assistance of this Committee and Congress, we have procured and installed a major portion of our integrated office-wide automation system. Although the system is not yet complete, we have begun to realize some considerable benefits, particularly in the areas of document preparation and intra-office communications.

With the increases appropriated in 1989 and 1990, we have purchased 337 personal computer workstations for both legal and support staff, linked our offices with an elementary telecommunications system, and purchased local area networks to allow each of our field offices to operate as an integrated unit. Increased attorney access to computerized legal research tools will be provided as software is developed.

We are beginning the development and design of the final phase of the system—internal casetracking, work measurement, archival and other recordkeeping capabilities. However we cannot afford to finish this year. Completing this computer enhancement for OGC is not, in my opinion, merely optional or marginal; it is essential for us to get a handle on our job. Right now, we simply have no accurate and readily accessible means of tracking cases and other legal matters pending in the office. Without this ability, thoroughly responsible management of OGC is very difficult. Therefore, we are requesting a net increase of $135 thousand to complete the system in fiscal year 1991. With the $512 thousand equipment budget already in our base, a total of $647 thousand would be available to complete OGC's computer needs.

PERSONNEL TRANSFERS

A small but important increase is $172 thousand for personnel transfers within the office. Our office is located in Washington, D.C., and 22 field locations across the United States. The field offices are small, ranging from three to 29 staff. In the past, we have been generally unable to afford transfers of personnel among our offices. This has resulted in lost opportunities for both the agency and the employees.

With the new regional structure we implemented last year and our efforts to become an integrated national law office, the ability to transfer personnel has become essential to the management of this office. For example, the new heads of our Mountain and Southern Regions were appointed from within OGC, but had to relocate from other offices. This increase will allow us to manage our personnel resources more effectively and provide more diverse work experiences for our staff.

INCREASED OPERATING COSTS

By far, the largest portion of our 1991 budget request is to cover standard increases in day-to-day operating expenses—the increasing cost of doing business—over which we have no control. Specifically, these are $1.1 million for pay costs and $202 thousand for inflation. Because our budget consists primarily of funds for personnel compensation, we have no way to absorb inflationary and pay rate increases other than to reduce our staff. Therefore, these funds are essential to our financial situation.

To be more specific, 85 percent of our budget is for personnel costs, six percent for Departmental assessments, and four percent to operate both the office automation system and the law library. The remainder—travel, training, promotions and awards—accounts for only five percent of our budget. Reducing these items would also significantly impair our ability to get our job done in a professional manner, and would seriously affect morale.

CLOSING

The budget request for fiscal year 1991 is a prudent one that will allow us to fund the 1990 level of legal services in 1991, to provide more emphasis to environmental issues, to move toward becoming a more unified, national law office and to better discharge our responsibility as the legal arm of the Department.

I believe the requested increase from last year's budget is consistent with the President's fiscal goal of ensuring budget responsibility and his policy goal of placing an important priority on environmental issues. The higher budget level remains confining for OGC, and we will still be required to continue to manage our resources carefully.

That concludes my statement, Mr. Chairman. We certainly appreciate the support this Committee has given us in the past. I respectfully request that you approve our budget request so that we can meet the challenges of our legally oriented society and maintain the quality and level of legal services to the Department. I will be happy to answer any questions you and the Committee members may have at this time.

Biographical Sketches

ALAN CHARLES RAUL

Alan Charles Raul was nominated by President George Bush, and unanimously confirmed by the Senate, as General Counsel of the U.S. Department of Agriculture. He was sworn in by Secretary Clayton Yeutter on May 22, 1989. Prior to this appointment, Mr. Raul served in the Executive Office of the President as General Counsel of the Office of Management and Budget (1988–1989). He was chief legal adviser to three successive OMB Directors—James C. Miller III, Joseph R. Wright, Jr. and Richard G. Darman. Before moving to OMB, Mr. Raul held a Presidential appointment in the White House as Associate Counsel to the President (1986–1988). Mr. Raul was previously an associate in the New York and Washington law offices of Debevoise & Plimpton and a law clerk to Judge Malcolm R. Wilkey on the U.S. Court of Appeals for the District of Columbia Circuit.

Mr. Raul was graduated from Harvard College and Yale Law School. He also received a Master's degree in Public Administration from the John F. Kennedy School of Government at Harvard University. He is a member of the American Society for International Law, the Council on Foreign Relations, the Federalist Society and various bar associations. Mr. Raul is admitted to practice law in New York and the District of Columbia, as well as before the U.S. Supreme Court and other federal courts. He is a native of New York City.

He is married to Mary Tinsley Raul, who also serves in the Bush Administration as Assistant U.S. Trade Representative for Congressional Affairs. They live in Washington, D.C.

JAMES P. PERRY

James P. Perry was appointed in 1988 to the position of Assistant General Counsel for Natural Resources, U.S. Department of Agriculture, with responsibility for Forest Service and Soil Conservation Service program matters. He joined the Office of General Counsel in 1967 and, following a 2-year tour of activity in the U.S. Army, served as a staff attorney until his appointment as a Deputy Assistant General Counsel in the Natural Resources Division in 1980.

Mr. Perry obtained a Bachelor's Degree from The Citadel in 1964. He received an LL.B in 1967 and an LL.M, with a specialty in Natural Resources Law, in 1974, both from the George Washington University. Mr. Perry is admitted to the practice of law in Virginia and the District of Columbia, as well as before the U.S. Supreme Court and other federal courts.

Office of Inspector General

Statement of Leon Snead, Deputy Inspector General

Mr. Chairman, members of the Committee, I appreciate the opportunity to appear before you today to discuss the activities of the Office of Inspector General (OIG) and to provide you with our views on some of the major programs and activities of the Department of Agriculture.

During 1990, we are continuing our strategic approach in reviewing the Department's programs and assessing their susceptibility to fraud, waste, and mismanagement. We will continue to direct our efforts toward areas concerning public health and safety and to areas where large dollar losses could occur. We are placing special emphasis on payment limitations, Farmers Home Administration debt restructuring, foreign export programs, and the Food Stamp Program.

In fiscal year 1989, OIG identified $54 million in recoveries, collections, fines, restitutions, and administrative penalties. Additionally, management agreed to seek recovery of funds totalling $45 million. Another $2.1 billion was identified for which management made commitments to use funds more efficiently. Our efforts also resulted in 713 criminal indictments and 573 convictions.

ENTITLEMENT PROGRAMS

The Food and Nutrition Service (FNS) administers major entitlement programs which account for approximately 30 percent of USDA's budget. During the past year, we have conducted reviews in the WIC and Food Stamp Programs.

WOMEN, INFANTS AND CHILDREN (WIC) PROGRAM

In the WIC program, we have completed audits in two States to review the propriety of payments for claims of State administrative costs. We found that the States claimed reimbursement for the salaries of employees who performed no WIC-related duties, performed duties on multiple programs without allocating costs properly, or based costs on budgeted salary costs rather than on actual costs. One of the States routinely charged the WIC program for the costs of non-WIC staff because of funding deficits or personnel limits in other programs. We questioned approximately $3.6 million in administrative costs claimed by the two States. Based on our audit recommendations, FNS officials are taking actions to collect these overpayments. We have also expanded our review of WIC administrative costs to an additional six States.

FOOD STAMP PROGRAM (FSP)

We reported previously on FNS accountability problems over food stamp redemptions. For example, in 1986, we found that redemptions, as reported by the Federal Reserve Bank, were $202 million more than reported by FNS in a 6-month period. We recommended that FNS take actions to reconcile these differences and to improve reporting at the local bank level. As a result, FNS established the Redemption Accountability Project as a pilot to improve food stamp accountability and reconciliation functions. The project was conducted at the Federal Reserve Banks in Memphis, Tennessee and Dallas, Texas, from September 1988 until March 1989.

We completed a review of the 6-month pilot project and found that it greatly improved accountability, reconciliation, and management control over food stamp redemptions. Reconciliation between food stamps redeemed and the participating State supporting deposit documents reached a 99.92 percent level. This represents a significant improvement over reconciliation levels existing before inception of the pilot operation. FNS expects to implement the system nationwide this fiscal year.

We also completed a series of audits of claims for reimbursement for State administrative costs in the FSP. Our audits in 10 States identified over $12 million in overcharges and potential savings. We found that States charged the program for expenses that were not eligible for reimbursement. FNS officials agreed to collect the funds and strengthen internal controls.

During fiscal year 1989, we devoted about 26 percent of our investigative resources to investigations of fraud in the Food Stamp Program. We completed 727 food stamp investigations which resulted in 513 indictments, 413 convictions, and over $5.1 million in fines, penalties, restitutions, recoveries, and administrative claims. OIG's investigative activities in the Food Stamp Program have traditionally focused on fraud by retailers authorized to accept food stamps and on food stamp trafficking. Trafficking is the unauthorized transfer of food stamps in exchange for nonfood items and the use of food stamps as a so-called "second currency." Although the latter problem is not new, it has received increased public attention recently because of the use of food stamps in drug transactions. We have conducted trafficking investigations in which food stamps were used by undercover OIG Special Agents to purchase quantities of crack cocaine, marijuana, and other controlled substances.

In Arizona, a food stamp investigation conducted jointly with the Phoenix Police Department resulted in the conviction of four individuals for illegally purchasing a large quantity of food stamps in exchange for cash, cocaine, and marijuana. This case ended a year-long investigation of a retail market which was described by the Phoenix Police as the center of drug-related activity in south Phoenix. Two of the individuals were sentenced to periods of imprisonment, and all four were ordered to make restitution.

In Missouri, we developed information which led to the discovery of three drug laboratories in southern California. A search of the laboratories by OIG, the Drug Enforcement Administration, and local police resulted in the seizure of 40 gallons of PCP and chemicals sufficient to produce another 600 gallons.

Six persons pled guilty to charges ranging from unauthorized possession of food stamps to distribution of PCP. They were sentenced to serve from 1½ years to 27 years in prison.

Other examples of our food stamp cases involve: (1) unauthorized retailers; (2) recipient and delivery system fraud; and (3) fraud by Federal or state employees who administer the program. We continue to conduct food stamp investigations in conjunction with other Federal and local law enforcement authorities. We believe that our coordinated food stamp enforcement strategy is the most effective means of combating fraud in the program.

The Department's 1990 Farm Bill proposal includes several initiatives to strengthen program integrity and to increase the penalties for violations of program provisions. We believe that increased use of electronic benefit transfer (EBT) will reduce the opportunity to divert program benefits. We also believe that the Food Stamp Act should be amended to provide specific penalties for EBT fraud. The proposal to require taxpayer identification numbers and periodic recertification of participating stores will improve the Department's prevention and detection of retail store violations. We also believe that the initiative to increase civil money penalties and mandatory minimum penalties will serve as a deterrent.

FARM PROGRAMS

Several farm program activities within the Department are administered by the Agricultural Stabilization and Conservation Service (ASCS). ASCS principal activities include the administration and management of production adjustment, conservation, price support, disaster, and warehouse examination programs. ASCS also administers the Commodity Credit Corporation (CCC) programs that relate to the storage and handling of commodities acquired under CCC programs; set-aside and acreage reduction programs; and loan deficiency and diversion payment programs for wheat, feed grains, rice, and cotton which account for approximately $13.2 billion or 17.8 percent of USDA's budget.

We have a strategy to continue to address problems in farm program areas. Among our ongoing reviews of ASCS are audits of compliance with Payment Limitation Provisions; the 1988 and 1989 Disaster Assistance Programs; Commodity Warehouse Licensing and Examination Programs; and the 1989 Emergency Feed Program.

PRODUCTION ADJUSTMENT PROGRAMS

Under production adjustment programs, the total amount of deficiency and diversion payments which can be made to an individual person is limited to $50,000. Prior audits have shown that as large producers reached the $50,000 limit, they reorganized their operations in order to qualify for additional "persons" and thereby maximize program payments. In 1987, ASCS made payments of over $840 million to 227,500 producers who did not receive payments in 1986. Of these new producers, we identified about 16,000 producers who received about 30 percent of the new payments. From our audit of these payments, we statistically projected that 1,800 producers were not entitled to $66 million in payments because the entities receiving the payments were not separate and distinct operations.

While the Omnibus Reconciliation Act of 1987 closed some of the past loopholes, producers who reach the payment limit continue to reorganize their operations and create additional entities. Consequently, the 1987 changes have only served to increase the number of reorganizations and thereby increase ASCS workload without reducing total program payments. During the period 1983–1987, the number of producers paid under ASCS programs increased from 590,000 to over 1,260,000.

Our findings indicated that, for the most part, a limit did not exist for total program payments. In one instance, 51 irrevocable trusts were created in 1989 so as not to reduce payments. By reorganizing, the owners were able to maintain the maximum program benefits and receive $1.43 million in payments. If the operations had not been reorganized for Crop Year 1989, the owners would have received only $666,000. As a result of the new law which allows equitable reorganizations such as this one, the owners obtained an additional $765,000 in payments.

While we will continue to evaluate compliance with the new rules, we recommended that ASCS perform a cost benefit analysis to determine whether the payment limitation provisions should be continued or if a change in legislation is required. ASCS agreed to study this issue and to review the administrative costs associated with administering the payment limitation program.

DISASTER ASSISTANCE PROGRAM

In 1988 and 1989, disaster assistance legislation was enacted to provide financial assistance to farmers who had experienced reduced crop yields. Our review of the ASCS implementation of the 1989 legislation disclosed that one State used overstated yields which resulted in excessive disaster assistance payments statewide of approximately $3.2 million.

Our review also disclosed that regulations implementing the program do not conform to the authorizing legislation as it relates to the computation of yields for nonprogram crops. The Disaster Assistance Acts state that the yield for the farm shall be based upon actual production information provided by the producer. If such data are not maintained for the preceding 3 crop years, ASCS will establish a yield for the farm using county average yields for the commodity or other available data.

Our audit disclosed that ASCS generally accepted or used actual production records only when they were higher than the established county yield. In addition, ASCS regulations provide for adjusting actual production yields up to the county averages and do not encourage producers to submit actual production records. For one blueberry producer, the State Committee raised the producer's yield for disaster payments up to the county average of 600 containers per acre, although actual production records showed this producer's yield over 3 years to be 187 containers per acre. This increased his payment by $5,300. We recommended that ASCS revise the regulation and take immediate action to notify all offices of the actual production requirement and revise 1989 payments for all affected producers. ASCS responded that they believe the program as currently operating implements the intent of Congress in the use of assigned yields instead of actual production. We are continuing to work with the agency in resolving this issue.

CONSERVATION RESERVE PROGRAM

We continue to monitor agency efforts to meet legislated goals for enrolling acreage in the Conservation Reserve Program. Our review of program bids in four States for the sixth through eighth signup disclosed that ASCS accepted bids for amounts in excess of the prevailing cash rental rates. This occurred because ASCS permitted the local rental rates to be increased to reflect other cost factors such as land value increases, maintenance, and return on investment. This practice is not consistent with a supplemental legislative requirement prohibiting funds from being used to enter into new contracts with rental rates in excess of the prevailing local rental rates for an acre of comparable land. In the States reviewed, ASCS allowed the use of other costs which increased the rental rate from $14 to $33 per acre. In response to our report, ASCS agreed to review, evaluate, and revise such rates prior to any future signups.

DIRECT AND GUARANTEED LOANS

The Farmers Home Administration (FmHA) administers a broad range of direct and guaranteed loans. The agency provides lending assistance for Farmer Programs, Housing Programs, and Community Programs.

DEBT RESTRUCTURING PROGRAM

We have placed emphasis on evaluating FmHA's implementation of the debt restructuring program, a primary component of the Agricultural Credit Act of 1987. This program, estimated to cost about $9 billion, provides for the writedown or writeoff of delinquent debt. We began our review as soon as the legislation was passed in order to make timely recommendations to preclude potential dollar losses as program activity increased. A number of significant issues have been reported thus far including the identification of a loophole in the legislation that has had a significant negative impact on the program. Specifically, borrowers who had converted security property have been permitted to participate in the net recovery buyout option without recourse. This option allows borrowers to purchase their loan note at an amount equal to the current value of the security less liquidation costs and fully satisfy their legal obligation. Under existing FmHA regulations, a borrower can illegally dispose of property securing the loan and still qualify for "buyout," in which the borrower buys out his debt at the current value of security less expenses FmHA would have to pay if it foreclosed and sold the property. Because the "buyout" is computed on only what remains of his security property, the Government loses the value of the property disposed of. In other words, FmHA was allowing borrowers to benefit from the unauthorized disposal of the loan security. We recommended that the agency seek a legislative change to preclude this activity. The agency agreed and legislative provisions to close the loophole are included as a part of the Department's 1990 Farm Bill proposal.

INTEREST ACCRUAL ON DELINQUENT GUARANTEED LOANS

OIG audits of FmHA's Business and Industry Loan Program identified a serious financial management weakness that resulted in large dollar losses. FmHA provides financial assistance to borrowers by guaranteeing loans made by commercial lending agencies. FmHA reimburses the lender for the agreed-upon percent of principal plus any accrued interest whenever the lender sustains a loss. Regulations governing the Business and Industry, Economic Emergency, and Rural Housing programs do not specify how soon after the borrower defaults that the lending agencies must submit final loss reports. Currently, interest continues to accrue on the borrower's unpaid principal until the lender submits a final loss report. We recommended that FmHA require lending agencies to file estimated loss reports within 90 days of default and that FmHA pay its share of the note based upon that estimate. FmHA could save over $8.3 million annually by avoiding unnecessary interest charges on defaulted guaranteed loans by paying on the estimated loss reports. FmHA agreed that interest accrual on delinquent guaranteed loans should be limited to a 90-day timeframe and has initiated the necessary regulatory changes.

REA LOAN FUNDS DIVERTED

We recently completed an inquiry into improper diversion of low interest loan funds from the Rural Electrification Administration (REA) by a nonprofit electric distribution cooperative in Washington. Our investigation showed that over a period of several years, millions of dollars in loan funds were diverted to profit-making subsidiary firms using a price inflation scheme and through the purchase of foreign made materials. Although criminal charges are still pending in this case, REA and the Department of Justice entered into a settlement agreement with the board of directors of the cooperative and the certified public accounting (CPA) firm which was responsible for performing the required audits of the cooperative. The cooperative's board of directors and its CPA firm have already made a $2.5 million payment to the U.S. Treasury, instituted management reforms at the cooperative, and agreed to remedial action by the CPA firm. Based on our review, we believe that the CPA firm did not follow professional auditing standards. As a result, we intend to refer the firm to the American Institute of Certified Public Accountants (AICPA) and State Board of Accountancy.

FINANCIAL MANAGEMENT AND ADP INITIATIVES

We have continued to place a high priority on the assessment of internal accounting and administrative controls within USDA. Systems of internal control are routinely assessed within the scope of all audits, and deficiencies are reported to agency managers for corrective action. In addition, we conduct reviews to determine whether the Department's internal control review and evaluation process is implemented in accordance with the requirements of Office of Management and Budget Circular A-123 and the Federal Managers Financial Integrity Act of 1982.

We have increased our emphasis on Financial Statement auditing. Beginning in fiscal year 1988, we have worked with the General Accounting Office in the conduct of financial statement audits involving three USDA agencies. In fiscal year 1990, OIG will assume full responsibility for auditing the financial statements of the Farmers Home Administration.

Our audits of ADP security disclosed serious control deficiencies in Departmental computer center operating systems and security software. These deficiencies would have allowed unauthorized individuals to access, modify, and/or destroy agency computer data, programs, and other resources without management being aware of the change. As a result of our audit efforts, the Department initiated corrective action to eliminate or substantially reduce security vulnerabilities reducing the risk of USDA program data being accessed, altered, or destroyed by accident or by unauthorized personnel.

CONSUMER PROTECTION

During this past year, we performed audits of certain aspects of egg inspection and meat grading activities.

EGG PRODUCT INSPECTION

The Egg Products Inspection Act requires the Agricultural Marketing Service (AMS) to conduct inspections at egg product plants, sample and test egg products, and ensure the proper labeling of products. In auditing the egg inspection activities, we found numerous problems at the egg plants including improperly stored chemicals; facilities and equipment in need of repair; egg products stored in unmarked containers and in containers marked for chemicals; and facilities constructed that had not been approved by AMS in advance. AMS supervisors had reported these types of problems to plant officials but had limited success in gaining compliance. AMS allowed the processing of egg products to continue despite violations because AMS did not monitor inspection reports, establish deadlines for corrective action, or suspend operations when problems remained unresolved. AMS also could not ensure that commercial laboratories could detect salmonella in egg products. AMS had no accreditation procedures to qualify commercial laboratories to test egg products, and, although the agency found laboratories conducting tests improperly, AMS did not routinely look for improprieties.

AMS concurred with our recommendations and is taking action to correct these deficiencies.

MEAT GRADING AND CERTIFICATION ACTIVITIES

AMS provides meat grading and certification services to about 600 meat packing and processing plants nationwide. AMS grades approximately 12.2 billion pounds of red meat per year at these establishments. AMS records did not indicate that corrective actions were taken on instances of misgraded meat documented on supervisory review forms. We found that corrective action had only been taken in 24 percent of instances of misgraded meat documented by supervisors. We also noted that corrections of undergrades were documented at about twice the rate of overgrades.

AMS also visits retail food establishments to ensure that retail outlets comply with grade labeling and advertising requirements. We found that AMS visited only 17 of 3,700 retail outlets in one large metropolitan area over a 2-year period. We also noted that AMS was not conducting required followup reviews of retailers when violations were previously found.

AMS agreed that better documentation was needed to show that corrective actions were taken on misgraded product found during supervisory reviews. AMS also agreed that it needed to perform an increased number of visits to retail stores each year.

MARKET DEVELOPMENT

During the past year, we have testified on several occasions before Subcommittees of the House Agriculture Committee on significant issues noted during our audits of the Export Enhancement and Export Credit Guarantee programs. The following is a summary of what we found in these program areas.

EXPORT ENHANCEMENT PROGRAM

The Export Enhancement Program (EEP) was established by the Secretary in May 1985, and subsequently included in the 1985 Farm Bill, to bolster declining markets for U.S. agricultural exports. The EEP is not intended to undercut world market prices but to compete with countries that subsidize commodity exports.

Our audit indicated that the Foreign Agricultural Service (FAS) targeting strategy was not supported. FAS did not have written procedures by which to identify countries or commodities that should be included in the program. Some of the countries included in the program did not show a strong competitive market between U.S. and European commodities.

We reviewed the FAS procedure for determining the European Community's price for wheat, adjustments it makes to U.S. wheat prices, and the resulting bonus value determination. FAS did not have written procedures for or sufficient documentation to support these calculations. Therefore, we were unable to determine how FAS arrived at its world price figures. Based upon available data, we believe that the FAS calculations could have overstated the bonus value by up to $2 per metric ton. If all EEP sales were awarded at the full bonus value, we estimate the cumulative bonus overstatement as of August 1988 to be about $89.9 million. We did note that some bonus awards were made at less than the maximum amount allowable.

On the bonus calculations for incidental costs, such as potential claims and interest costs, we noted that FAS did make adjustments. Our review of exporters' records showed that, in most cases, the actual costs were less than the amount allowed by FAS; in some cases by as much as $3.07 per metric ton. The largest differences were for shipments to the People's Republic of China. Here, FAS factored in a cost primarily for treating wheat for snow mold, even if the wheat was shipped from an area where snow mold was not a problem. Overall, we estimate that about $25 million was overpaid in EEP bonuses for excessive incidental costs.

We have recommended, and FAS has agreed, that written policies and procedures for targeting countries and computing bonuses be developed and implemented. USDA redefined the program's criterion and published it in the Federal Register on November 27, 1989. We also recommended that FAS write policies and procedures for world price determinations and bonus calculations and document adjustments made to price quotes from attaches and other sources. FAS has agreed to publish EEP rules and regulations in the Federal Register.

We also found that participating U.S. exporters did not always maintain adequate program records or provide access to nonprogram information. As a result, we could not determine the appropriateness of bonuses awarded under the EEP. FAS has notified exporters that EEP's access to records provisions allows auditors to review records outside of EEP to determine compliance with program requirements. This authorization will also be formally published in regulations.

In regard to the bidding process for bonus payments, we found that bid assistance provided by FAS created the appearance of partiality in the bidding process. Through the bidding process, FAS selects exporters to participate in the program according to their bid for bonus payments. We noted nine instances where FAS had suggested a bid price. We recommended that FAS evaluate the bid assistance provided to certain bidders and ensure that program integrity in the bidding process is maintained both in practice and appearance. FAS agreed that it will not coach buyers in the timing, price, delivery points, and other sensitive matters.

FOREIGN COMMODITIES GUARANTEED UNDER THE EXPORT CREDIT GUARANTEE PROGRAM (GSM 102/103)

The Export Credit Guarantee Program, commonly referred to as GSM 102/103, guarantees repayment of credit extended to eligible foreign buyers of U.S. commodities. The principal objective of the Export Credit Guarantee Program is to maintain or expand export markets for U.S. agricultural commodities.

Our audit found that FAS controls did not prevent the sales of non-U.S. agricultural commodities under GSM 102/103. Exporters had included foreign agricultural commodities in 5 of the 11 commodities reviewed: beef cattle, planting seeds, soft drink concentrates, tobacco, and wood pulp. Of the $1.1 billion of commodities audited for fiscal year 1988, FAS had guaranteed loans with a value of at least $169.2 million for export sales containing foreign agricultural commodities.

Misstatements by exporters were the main cause for foreign commodities being included in the GSM 102/103 sales guarantees. Some exporters declared that 100 percent of the commodities they were exporting under GSM 102/103 sales were of "U.S. Origin," when a portion of those commodities was foreign. Some exporters knowingly made these misstatements while others were apparently unaware that a portion was of foreign origin. The major problem was with tobacco. Of the $169 million, $141 million of the loan guarantees were for tobacco shipments which contained from 25 to over 80 percent foreign tobacco.

We found that tobacco companies consistently blended foreign tobacco with domestic tobacco and exported the mixture as "U.S. Origin" tobacco under GSM 102/103 credit guarantees.

During our review, FAS initiated action to strengthen controls and provide additional guidance to prevent foreign agricultural commodities from being included in GSM programs. FAS currently has a study underway to review and evaluate commodity eligibility criteria to determine if the use of products of foreign origin in the process of, or inclusion in, an otherwise eligible U.S. agricultural commodity makes the commodity ineligible for loan guarantees. Also, FAS is in the process of enhancing the role of its Compliance Review Staff in reviewing GSM programs. FAS is committed to strengthening the overall internal controls in the GSM programs.

Additionally, we noted that current legislation allows U.S. exporters to claim customs duty drawbacks on imports of agricultural commodities. The drawback provision encourages the importation of foreign commodities which displace U.S. domestic production. We recommended that FAS pursue legislation that would prohibit exporters from applying exports under FAS export programs to claims for duty drawbacks. FAS agreed and the legislation has been enacted with the passage of Public Law 101-220 on December 12, 1989.

INSURANCE PROGRAMS

The Federal Crop Insurance Corporation (FCIC) is authorized to offer all-risk insurance for over 50 commercial crops in over 3,000 agricultural counties in the U.S. and to subsidize premium payments.

In 1987, we performed an audit of insurance claims we believed had the highest probability for loss. Of the claims we reviewed, about 69 percent had errors affecting the amount. About 50 percent of the indemnities paid to farmers by reinsured companies were excessive, resulting in losses of $5 million.

In a followup audit, we reviewed claims for the 1988 corn, wheat, and soybean crops. Approximately 70 percent of all claims were paid for these crops. Our audit showed that 71 percent of the claims for corn, wheat, and soybeans had one or more errors that affected the claim amount and that 13 percent of the indemnities were overpaid. These errors resulted in overpayments of $90 million and underpayments of $1.6 million.

While FCIC has made progress in establishing an effective adjustment program, more improvements are necessary. Of critical importance is the need to further upgrade the compliance unit that provides oversight of the adjustment process. If it is to remain a viable program, FCIC needs to improve and enforce its regulations and initiate controls to prevent the possibility of dual insurance coverage. We recommended that FCIC pursue legislation requiring Social Security Numbers which would be one control mechanism.

FCIC agreed to issue instructions to loss adjustment personnel stressing the use of third party records, seek legislative approval to require Social Security Numbers, and update manuals to provide precise and detailed instructions.

FY 1991 BUDGET REQUEST

The fiscal year 1991 budget request for the Office of Inspector General is $57.6 million. This request is $5.8 million above the fiscal year 1990 budget of $51.8 million. The increase will fund 10 additional staff years for reviews in new and existing international programs, financial management, and in areas of public health and safety. Funds will also be provided to cover special pay rates mandated by the Office of Personnel Management for entry level auditors in high-cost areas, new training requirements for auditors required by Governmental Auditing Standards, and new training initiatives for investigators. The budget request also includes funds for the first year of a 3-year replacement and upgrade of the agency's nationwide ADP system, funds for the increased costs of official duty station moves and other operating costs. The increases in real estate and relocation service costs nationwide have forced the agency to reduce these moves by more than one-half in the past several years. Relocating OIG personnel to fill critical jobs and moving employees to those areas where the need has been identified are critical to the mission of the agency. In addition, this request includes $2.3 million for the 1989 pay raise and 50 percent of the 1991 pay raise.

This concludes my statement, Mr. Chairman. I will be glad to respond to questions from the Committee.

NATIONAL AGRICULTURAL LIBRARY

STATEMENT OF JOSEPH H. HOWARD, DIRECTOR

Mr. Chairman and members of the Subcommittee, it is a pleasure for me to appear before you today to explain the proposed fiscal year 1991 budget for the National Agricultural Library (NAL).

I would like to start by giving a little background on the library.

With the Library of Congress and the National Library of Medicine, the National Agricultural Library is one of three national libraries of the United States.

NAL is at the apex of the effort of the nation's agricultural libraries to meet the needs of farmers, agribusinesses, researchers and others for the most up-to-date information on agriculture that is available.

With more world attention focused on agricultural issues like pesticide use and soil and water depletion; and more countries competing for agricultural export markets, the information maintained by NAL has become increasingly more vital to the survival and well-being of U.S. agriculture.

And while the thrust of NAL's operations is in maintaining and providing agricultural information for users in the United states, in recent years our efforts have become more international in scope.

NAL is fast gaining a reputation throughout the international agricultural community as the most complete source of agricultural information available in the world. The library also is recognized as a world leader in the application of new information management technologies.

Where our resources allow, we try to respond to the increasing number of requests we receive from our international friends. That the number of requests for information is increasing, I feel, is testament to our success and growing reputation, as well as to the increased world concern over agricultural issues.

NAL also plays an important international role in helping to keep the United States ahead of other countries in what has become an intensely competitive agricultural research arena. With so many countries challenging the United States for the title of agricultural research leader, NAL's network of international contacts, developed through the cooperative exchange of information, allows U.S. scientists to keep up on the latest developments in agricultural research.

And while meeting the information needs of the national and international agricultural communities, NAL also serves as the primary information resource to the dozens of agencies and hundreds of researchers and scientists within the U.S. Department of Agriculture. I should mention that this responsibility alone takes up the major portion of our operating resources.

The increases in funding NAL has received in recent years has enabled us to far exceed the expectations of all of our users in providing information services. We at the library take pride in being able to gain maximum benefit from these budget increases.

NAL does this through a combination of outreach to agricultural libraries in the United States, through cooperation with the important network of U.S. land-grant universities and through the pursuit of advanced information technologies such as computerized indexing and full-text digitizing.

To continue the level of service USDA, the nation and the world has come to depend on from NAL, we are requesting a total of $15,773,000 in fiscal year 1991 funds.

This figure reflects a $1.1 million increase over the 1990 funds level—an increase made necessary by the rising cost of library materials and our desire to continue to improve the vital services we provide to U.S. and world agriculture.

Specifically, our request includes an increase of $906,000 for library materials, $250,000 for networking and $321,000 to cover the increased costs of NAL salaries connected with the 1989 and 1991 pay raises. I'll address these separately.

The heart and bones of a reference/research library like NAL are the materials it has on its shelves, in its reference files, in its computer databases. To be useful in critical agricultural research, this material must be current. Obtaining and maintaining library materials is expensive and becoming more so.

The ability of NAL to procure library materials has been eroded the rising costs of periodicals and other materials. Overall prices for U.S. journal literature have increased 171 percent since 1978. The cost of foreign literature has gone up nearly 200 percent during this time.

As a result of these spiraling costs, NAL has been forced to cancel subscriptions to any serial publications and curtail the purchasing of other library materials.

The publication of agricultural periodicals, manuals and books has burgeoned in recent years. New materials providing a wealth of agricultural information are constantly being released.

These limitations effect the quality of services. For example, we risk missing announcements of key agricultural developments contained in journals we can no longer afford.

The requested increase will enable NAL to expand its procurement of information important to U.S. agriculture. This, in turn, will ensure that we maintain the high level of information services needed in order for U.S. agriculture to meet its commitment to feed the people of this nation and to remain competitive in the world.

I'll now address the $250,000 increase requested for networking funds.

As the premiere agricultural library in the world, NAL is looked to by its users to coordinate services available from agricultural libraries throughout the United States. Networking with these libraries is key to avoiding duplication of efforts, to sharing special library collections, to maintaining an up-to-date national directory of agricultural information. In general, networking makes for more efficient operation for all agricultural libraries and better serves those seeking information.

I believe NAL has taken the first step in rising to this challenge through its involvement with the recently-formed United States Agricultural Information Network, or USAIN.

USAIN is made up of representatives from agricultural libraries across the country. NAL has been instrumental in helping to establish USAIN as a group that is committed to strengthening agricultural libraries and information services and to promoting cooperation and communication among these groups.

Equally as important as USAIN is the network for sharing information that NAL has developed with land-grant university libraries. Cooperative programs between NAL and land-grant universities have resulted in unique computer systems, like text-digitizing, which improve the access researchers have to agricultural information.

The increased funding for networking, if approved, will allow NAL to continue to successfully coordinate agricultural information resources in the United states.

Finally, I would like to point out that we are requesting an increase of $321,000 to help partially defray the costs of pay raises for NAL employees in 1989 and 1991.

I don't think it is boasting to say that the National Agricultural Library is the foremost source of agricultural information in the world. The multitude of requests from around the globe we respond to each month supports this statement.

That U.S. agriculture is such a world leader in production may be related in no small way to the fact that NAL is a world leader in managing agricultural information. Even in agriculture, information is power.

Funding at the level we have requested for fiscal year 1991 will ensure that NAL retains this world distinction and will help us keep our momentum as we move ahead in addressing the growing information needs of U.S. agriculture.

Thank you. I would be happy to answer any questions you have.

BIOGRAPHICAL SKETCH

MARIA G. PISA

Maria G. Pisa is the new Assistant Director of the National Agricultural Library (NAL). Prior to assuming her present position, Ms. Pisa held progressively responsible positions at the Library including her most recent service as Assistant to the Chief of the Public Services Division of NAL and as Acting Head of its Reference and User Services Branch. Among her accomplishments in the Public Services Division was the codevelopment of NAL's electronic bulletin board system, ALF (Agricultural Library Form). As Leader, Special Services and Communications, Education and Program Staff from 1984–1987, she served as editor of the Library's newsletter, "Agricultural Libraries Information Notes" (ALIN), as well as a variety of other publications and was responsible for coordinating many of the Library's outreach programs. She also served as a Reference Librarian in both Beltsville, Maryland and Washington, D.C. from 1981-1984. Ms. Pisa came to NAL in January 1981, from the USDA Statistical Reporting Service where she had worked as a technical information specialist since 1978. She earned her Master of Library Science from Catholic University in 1978, and a Bachelor of Science from Boston University in 1974. Before entering the library profession, she taught high school English. Ms. Pisa has been the author, coauthor, or editor of various publications and bibliographies and is a member of several professional societies including the American Library Association.

NATIONAL AGRICULTURAL STATISTICS SERVICE

STATEMENT OF CHARLES E. CAUDILL, ADMINISTRATOR

Mr. Chairman and members of the Committee, it is an honor to appear before this distinguished Committee to present the National Agricultural Statistics Service's (NASS) fiscal year 1991 budget request. The Committee's continued recognition of the need for a strong agricultural statistics program and your support are appreciated.

The NASS administers the USDA's program of collecting, compiling, and disseminating current national and State agricultural statistics. Research designed to improve the statistical methods and techniques used to produce agricultural statistics is also conducted. In addition, NASS performs reimbursable survey work for other Federal, State, and producer organizations.

Statistical data developed by NASS on the Nation's agriculture are essential for the orderly development of production and marketing decisions by farmers, ranchers, and other agribusinesses. These agricultural data series are also used for monitoring the ever-changing agricultural sector and for making and carrying out agricultural policy relating to farm program legislation, commodity programs, agricultural research, rural development, and related activities.

FISCAL YEAR 1991 BUDGET REQUEST

The fiscal year 1991 budget request is $81,151,000. This request includes a total increase of $14,275,000: $1,850,000 to collect additional hired agricultural labor and wage rate data; $2,400,000 to develop a more comprehensive list sampling frame; $7,000,000 to provide improved data for a comprehensive food safety information system; $925,000 for statistical quality improvements including cooperative research; and $2,100,000 for pay costs.

MAJOR ACTIVITIES OF THE NATIONAL AGRICULTURAL STATISTICS SERVICE (NASS)

The primary activities of NASS are the collection, summarization, analyses of data, and publication of accurate and reliable agricultural forecasts and estimates. Thousands of farmers, ranchers, agribusinesses, and others voluntarily respond to nationwide surveys about crops, livestock, prices, and other agricultural activities. These surveys are supplemented by field observations, objective yield counts and measurements, and other administrative data to provide reliable information. Annually, estimates for about 120 crops and 45 livestock items are published in about 300 reports prepared by NASS's Agricultural Statistics Board (ASB).

The agricultural production and marketing data that are developed and published by NASS include: number of farms and land in farms; acreage, yield, and production of grains, hay, oilseeds, cotton, tobacco, some fruits and vegetables, floriculture, and other specialty crops; stocks of grains; inventories and production of hogs, cattle, sheep and wool, goats, catfish, trout, poultry, eggs, and dairy products; prices received by farmers; prices paid by farmers for inputs and services; cold storage supplies; agricultural labor and wage rates; and other data related to the agricultural economy.

The NASS agricultural statistics program is conducted through 45 State Statistical Offices (SSO's) servicing all 50 States. These SSO's are operated under cooperative funding arrangements with State Departments of Agriculture and/or Land-Grant universities. This arrangement efficiently serves the agricultural data needs at both the State and Federal levels and eliminates duplication of effort. Twenty-three of the NASS State offices are physically located in State office buildings. These beneficial collocations provide increased service and additional agricultural data for State and local needs while minimizing overall costs to the Federal Government.

A research program is conducted to improve the statistical methods and techniques used in developing agricultural statistics. This research is directed towards improved sampling, yield forecasting, and survey techniques. A remote sensing research program is continuing with the objective of increasing the accuracy of domestic crop acreage and land cover estimates.

The NASS also conducts surveys on a reimbursable basis for other Federal, State, and private agencies or organizations. Our existing survey capability can provide these services much more efficiently than having each agency conduct its own surveys. In addition, technical assistance in the development of agricultural statistics programs in foreign nations is also conducted on a reimbursable basis.

The NASS periodically seeks input on data needs and priorities from data users through individual contacts, meetings with commodity groups, ASB briefings, other Departmental and Federal agency contacts, and regional data user meetings. The Agency has made many adjustments in its program in response to suggestions made by data users indicating that new data series or changes in current series are needed. Users support the policy that statistical efforts should continue to place emphasis on data quality over quantity. Although NASS has received some budgetary increases in recent years, these were mostly for specific program changes. Funds to offset inflationary costs have generally not been approved. This has led to a decline in real resources. Fewer real resources have resulted in deterioration in the quality of some statistical series. Balancing program needs against available funds has become progressively more difficult. Requests continue for expanded detail, wider geographic coverage, more frequent reports, new data series, and restoration of data series discontinued because of budget restrictions.

FISCAL YEAR 1991 PLANS

The budget request includes an increase of $1,850,000 for additional agricultural labor and wade rate data. There is an urgent demand for data of greater reliability and for more specific geographic coverage. Improvement is also needed in the frequency of reports and some survey procedures. This increase would provide for increased frequency of estimates of hired workers during peak labor periods and expanded coverage of farm labor wage rate information for seasonal production activities in the 10 largest agricultural labor States. Monthly estimates would be produced for three States and the remaining seven would have monthly coverage from April through October plus a January survey. Other States in the program would continue with the present quarterly coverage by regions.

An increase of $2,400,000 is requested for an improved sampling frame for agriculture. There is a need for more comprehensive list frame coverage to permit more efficient survey designs, data collection processes, and maintenance procedures. This initiative would also respond to the Office of Management and Budget efforts to name NASS as the responsible agency for development and maintenance of a central farm list for all Federal agricultural statistics programs and will result in an improved mailing list for the 1992 Census of Agriculture. Frame coverage would be made more comprehensive by acquiring additional administrative lists from USDA agencies and other sources and by having field enumerators active in targeted areas to locate operators not currently on the list. Frame coverage would be made more complete for commercial farms and for various types of farms that are currently considered to be most incomplete on the current list. Maintenance procedures would also be improved in order to eliminate nonfarms from the frame and reduce within-list duplication which can be a source of serious statistical bias. This work is a critical prerequisite for the Department's food safety and water quality initiatives.

The budget request includes $7,000,000 for improved data for food safety. There is a critical need to build a comprehensive food safety information system to aid public policy decision making. An adequate chemical use data base does not currently exist. Many public policy officials and most Americans assume that there exists somewhere up-to-date, detailed data about the quantity of specific pesticides being applied to individual crops. They are seriously mistaken. The last extensive collection of pesticide use data for major field crops was in 1982. For specialty crops, where dietary exposure can be high, the data collection is even more out-of-date. This request aimed at improvement of food safety is part of a $25,000,000 Department of Agriculture data initiative. NASS activities will include surveys of farmers to determine the types and amounts of chemicals that are used on specific crops at the farm level in each State. These funds will be supplemented with other funding from the Economic Research Service and possibly from State Departments of Agriculture in order to maximize commodity coverage and frequency of reports. Information will be collected on a 3-year cycle for 30 commodities, covering about 90 percent of U.S. production, and will have State-level reliability. A series of regular reports using these farm level data will provide the critical statistics to assess issues related to food safety, water quality, and pesticide regulation programs and policies.

Because of the budget restraints in fiscal year 1990. NASS was forced to make certain program modifications. The $925,000 would be used to restore increased geographic coverage and/or increased sample size for the crop yield surveys and strengthen the objective yield measurement surveys for rice, wheat, and soybeans. The reliability of the midyear cattle survey would also be improved, as would NASS's ability to continue cooperative research with universities in the areas of improved sampling, data collection, and forecasting techniques.

The $2,100,000 would be used to fund the increased pay costs for fiscal year 1989 and one-half of the anticipated fiscal year 1991 pay costs. Fiscal year 1990 pay costs are totally absorbed in fiscal year 1991. Continued absorption of pay and other inflationary costs has reached the point where reductions in critical parts of the base crop and livestock estimating program can no longer be avoided.

This concludes my statement, Mr. Chairman, and I will be happy to respond to your questions.

PACKERS AND STOCKYARDS ADMINISTRATION

STATEMENT OF VIRGIL M. ROSENDALE, ADMINISTRATOR

Mr. Chairman and Members of the Subcommittee: I appreciate the opportunity to appear before the Subcommittee to discuss the programs of the Packers and Stockyards Administration (P&SA) and the Agency's budget request for fiscal year 1991. First, I would like to introduce two members of the staff who are accompanying me today, Calvin W. Watkins, the Deputy Administrator, and William Ashley, the Agency's Budget Officer.

You and other Members of the Subcommittee are familiar with the traditional programs of the Agency. As you are aware, the mission of the Packers and Stockyards Administration is to assure fair trade practices and competitive markets for livestock, meat, and poultry. The programs of the Agency are designed to foster fair and open competition, guard against deceptive and fraudulent practices, and provide payment protection in the marketing of livestock, meat, and poultry.

In addition to the Packers and Stockyards Act, the Agency is responsible for administering the Clear Title provisions contained in Section 1324 of the Food Security Act of 1985. Additional responsibility was also added when the Packers and Stockyards Act was amended in 1987 by the "Poultry Producers Financial Protection Act" to add statutory trust and payment provisions for poultry similar to those adopted in 1976 for livestock producers.

SCOPE OF OPERATIONS

The production and marketing of livestock, meat, and poultry are important to American agriculture and have a significant impact on the Nation's economy. In 1989, cash farm receipts of livestock and poultry were $57 billion, approximately 36 percent of total receipts. The wholesale value of red meat and poultry in 1989 has been estimated by the Department of Commerce to be approximately $86 billion.

At the end of fiscal year 1989, there were 1,765 posted stockyards; 9,925 registrants, including 7,326 market agencies/dealers and 2,599 packer buyers; approximately 6,500 slaughtering and processing packers; and an estimated 6,900 meat distributors, brokers, and dealers. Of the slaughtering packers, 619 were bonded and those purchasing over $500,000 worth of livestock were also required to file annual reports with the Agency. There are an estimated 250 poultry firms subject to the Act.

PROGRAMS UNDER THE P&S ACT

Livestock, meat, and poultry production and marketing continue to change. Fortunately, the Act is written in a manner which has allowed the Agency to modify its programs and adapt to a changing industry.

The Agency has two major program areas under the P&S Act: Livestock Marketing and Packer and Poultry. It is a goal of the Agency under normal circumstances to allocate its resources on an equal basis between the two major program areas. However, the Agency must maintain allocation flexibility so that it can respond to changing conditions. For example, the current financial problems in the industry require that additional resources be channeled to financial and payment protection activities.

PAYMENT PROTECTION

Payment protection is a major concern to livestock and poultry producers, and it is particularly important to the stability of the farm economy for them to receive full payment when due.

Under these conditions, the Agency again has allocated additional resources and given special priority to the financial area. During fiscal year 1989, 5 auction markets failed financially owing $218,000 for livestock; $187,000 was recovered from bonds and other sources. Also, during the last fiscal year, 16 dealers/order buyers failed owing $1.5 million for livestock, of which about $200,000 was recovered, leaving $1.3 million unpaid.

Since 1985, an average of more than 20 meat packers have experienced financial failure annually. The statutory packer trust provision in the P&S Act contributed significantly to reducing producer losses when the packers failed.

During fiscal year 1989, cash sellers of livestock were paid $1.1 million from 9 packers under the statutory packer trust provision. This brings the total paid to cash sellers to over $32.4 million since the adoption of the trust provisions of the Act in 1976.

In addition to amounts recovered under the trust, proceeds from packer bonds paid $233,000 in 1989.

Since the poultry amendments to the Act became effective, the Agency has investigated nine poultry failures. The poultry trust provision has been helpful in reducing losses to poultry sellers and growers in these cases.

LIVESTOCK MARKETING

The primary responsibilities of the Livestock Marketing Division are to ensure prompt and full payment to livestock producers, prevent unfair trade practices, and foster open competition by stockyards, market agencies, and dealers. The bonding, solvency and custodial account requirements are given top priority to provide maximum payment assurance to livestock producers.

Because of increasing concern about the integrity of custodial funds, the Agency has developed a review program to provide more frequent on-site audits of all custodial accounts. This program will help identify market agencies that are misusing custodial funds and those that cannot make up shortages in the account.

In addition to the payment protection responsibilities, the investigation of fraudulent practices are given a high priority in the livestock marketing program. Emphasis is given to investigation of false weighing, weight and price manipulation, switching of livestock, and misrepresentation of the source, origin, and health of livestock.

Competition in livestock marketing is also a matter of concern. Competition for livestock should be open and free of restrictions. Any practice, agreement, or understanding which excludes potential buyers from bidding in open competition is considered a restraint on competition. Practices which result in the lessening of competition for producers' livestock include apportioning of territories, price agreements or arrangements not to compete, and payoffs or kickbacks to buyers. Information or complaints which indicate a possible restriction of competition are investigated on a priority basis.

PACKER AND POULTRY

The primary responsibility of the Packer and Poultry Division are to assure prompt and full payment to livestock and poultry producers; to foster open and free competition in the procurement of livestock by packers; and to prevent noncompetitive practices in the marketing of meat and meat products. High priority is given to assuring payment for livestock through bonding, solvency tests, and the statutory trust. The existence of the packer trust has helped reduce losses to producers selling livestock on a cash basis to slaughtering packers.

The poultry amendments to the Act, which became effective February 21, 1988, give similar protection to poultry growers and producers through statutory trust and payment provisions. Regulations have now been published to implement the new statutory trust provisions and live poultry dealers will be filing annual reports for the first time this year.

The poultry program of the Agency continues to take on added significance as a result of the 1987 amendments. The new administrative authority will make administration of the statutory trust and payment provisions more effective and efficient. The Agency, however, will continue to encounter serious delays concerning trade practice violations because administrative procedures cannot be utilized, and enforcement proceedings must be handled through the Federal District Courts, a costly and time-consuming process.

MEAT MARKETING

Commercial bribery and illegal brokerage in the wholesale meat trade continues to require attention, with emphasis on the operations of meat brokers and wholesale meat distributors. Firms making payoffs to meat buyers enjoy a favored position over other suppliers who compete on the basis of service and the products sold. Cases of this nature generally cover broad geographic areas and require a substantial commitment of Agency resources. P&SA works closely with other Government agencies such as the FBI, the IRS, and the Postal Inspection Service in these areas.

Bait-and-switch operations are also a continuing problem. The Agency works with State and local authorities on cases of this nature.

MEAT PACKER CONCENTRATION AND CAPTIVE SUPPLIES

Meat packer concentration, feeding, and forward contracting continue to be a matter of some concern, especially among livestock producers. Concentration accelerated during 1987 and continued into 1988. The top 10 slaughterers of steers and heifers during calendar year 1985 merged into 5 by the end of 1987. Acquisitions have also resulted in the merging of specialized poultry firms and traditional red meat firms. These developments, along with the moves on the part of meat packers to gain captive supplies through feeding and forward contracting, have prompted the Agency to review industry structure and market performance on a continuing basis.

The four largest firms slaughtered 70 percent of total commercial slaughter of steers and heifers in 1988. Boxed beef production by the top four firms was 79 percent of total production. There has been increased concentration with respect to sheep and lambs, with the four largest firms slaughtering 77 percent of the 1988 commercial slaughter. The four-firm concentration ratio for hog slaughter was 34 percent in 1988. The hog slaughter picture, however, is undergoing change at the present time, and an increase in this four-firm concentration ratio is expected as a result of expanded slaughter capacity.

Under the Hart-Scott-Rodino Act, firms, including meat packers, are required to submit premerger notification and information to the Department of Justice and the Federal Trade Commission. P&SA has and will continue to provide analyses, counsel, and information on industry structure, concentration, and other factors to Justice and FTC concerning proposed mergers of meat packers.

The supply situation for both fed and feeder cattle, together with excess plant capacity, will likely continue to minimize any measurable negative effect of concentration and captive supplies in market performance and cattle prices in the foreseeable future. If and when livestock prices drop significantly, however, producers may more seriously focus on the concentration and captive supply issues. At the present time, there definitely seems to be a lack of consensus among livestock producers with respect to the need or advisability for any government involvement to alter the present concentration and integration trends.

FURTHER PROCESSING OF RED MEAT AND POULTRY

The meat processing industry continues to develop and expand beyond the fabrication of red meat into wholesale cuts. Areas of significant expansion include fabricating red meat and poultry into individual portions; manufacturing specialty and convenience items; preparing partially-to-fully cooked and ready-to-serve products; and developing packer branded retail cuts. These developments have far-reaching implications for producers, consumers, and agribusiness firms in the industry. The Agency will continue to stay alert to such changes and modify its programs and priorities accordingly.

The proportion of fed beef which is boxed remained steady in 1988 compared to the previous year.

Boxed beef production accounted for 22.5 million carcass equivalents in 1988, 80 percent of the 28.1 million steers and heifers slaughtered that year.

SCALES AND WEIGHING

The major emphasis of the Agency's scales and weighing program continues to be directed to weighing investigations. Economic and competitive pressures on individuals and firms engaged in livestock marketing contribute to falsifying weights as a way to improve income. During fiscal year 1989, 14 percent of the Agency's 481 formal weighing investigations disclosed false or questionable weighing. The percentage of cases involving false or questionable weighing has remained relatively constant for the past few years.

In addition to conducting weighing investigations, the Agency actively participates with the National Conference on Weights and Measures and the National Institute of Standards and Technology in the development of standards, specifications, and tolerances for livestock and carcass scales.

The Agency also develops training programs and provides instruction to State weights and measures officials, private scale testing companies, and scale users. During fiscal year 1989, the Agency's 24 formal scale testing workshops provided training for over 200 weights and measures and industry personnel. Five weighmaster training schools conducted by Agency personnel trained 65 scale users in proper weighing procedures and techniques.

CLEAR TITLE

As of January 31, 1990, seventeen States had received certification of their central filing systems under Section 1324 of the Food Security Act of 1985. The States of West Virginia and Wyoming received certification in calendar year 1989. The certification for the State of Arkansas was withdrawn during the year after the repeal of the State's enabling legislation for the central filing system. States previously certified continue to apply for amended certification due to modifications in their systems.

The Agency is continuing to review its procedures for carrying out its responsibilities for certification of central filing systems to determine if it should be providing additional assistance to States operating the systems or if there should be some review of previously certified systems.

AGENCYWIDE INFORMATION MANAGEMENT SYSTEMS (AIMS)

The Agency's progress in implementing its automated information management system has been slow and has now virtually come to a standstill due to lack of resources.

This fiscal year the Agency will be operating on a budget only $160,000 over the 1988 funding level. Increased costs and pay increases have otherwise been absorbed since 1988.

The Poultry Producers Financial Protection Act of 1987 added additional responsibilities to the Agency to provide payment protection and a statutory trust for the benefit of poultry producers and growers. With these additional responsibilities, increased costs and no additional funding, we have been unable to keep pace with the industry we regulate in the areas of automation and computerized technology and techniques.

To correct this situation. funding is needed to develop and implement a fully automated information management system. Such a system is necessary to provide multi-user computer systems for: (1) expanding database applications for registration and bonding of those subject to the Packers and Stockyards Act; (2) enhancing the Agency's ability to monitor the financial condition and debt-paying ability of meat packers; and (3) improving office efficiency by computer generation and control of correspondence and documents through systematic replacement of obsolete word processors.

The system will also provide risk analysis capabilities for identifying financially weak livestock dealers and market agencies. In addition, the Agency investigators would have the capability of accessing an archival file to detect individuals and firms barred from operating in one region who are operating in another.

The Agency at the present time is at critical risk with respect to even basic office automation capabilities. Word processing, the most basic automated capability for daily operation of an office, is being accomplished on obsolete equipment. Should these fail and replacements not be available, time sensitive mailings would require days to complete instead of a few hours.

We must become more efficient and increase productivity if we are to continue to meet increased responsibilities at lowest cost. The technology and techniques are available, and an investment now will provide dividends in the future.

FISCAL YEAR 1991 BUDGET REQUEST

The total budget request of the Packers and Stockyards Administration for fiscal year 1991 is $10,687,000. Included is $10,559,000 for the administration of the Packers and Stockyards Act and $128,000 for Clear Title.

The request includes an increase over 1989 funding of $1,125,000. The additional funding will provide $640,000 for computer hardware, software, development, and training necessary for implementing an Agencywide Information Management System. It also provides $186,000 for additional operating costs and $299,000 to annualize 1989 pay cost increases.

Mr. Chairman, the Agency appreciates the opportunity to present this statement. We welcome the opportunity to respond to any questions you and other members of the committee may wish to ask.

OFFICE OF PUBLIC AFFAIRS

STATEMENT OF DR. PAUL E. KINDINGER, DIRECTOR

Mr. Chairman and members of the subcommittee, thank you for inviting me to discuss the 1991 fiscal year budget request for the Office of Public Affairs (OPA).

OPA serves as the principal USDA contact point for dissemination of consistent and timely information to the public, the media, State and local governments and the agriculture industry. We provide leadership, expertise and counsel for the development of public affairs strategies.

The Office of Public Affairs was established by the Secretary of Agriculture on October 1, 1989. OPA retains two of the three functions performed by the former Office of Governmental and Public Affairs—Public Affairs and Intergovernmental Affairs. The Office of Congressional Relations (OCR) now reports to the Assistant Secretary for Congressional Relations. Funding for OCR is provided as part of the appropriation request for the Office of the Secretary.

The responsibilities of the offices in OPA are now redefined as follows:

Office of Intergovernmental Affairs (OIA): USDA liaison for State and local governmental officials including Indian Tribal Councils, and the White House Office of Intergovernmental Relations.

Office of Publishing and Visual Communication (OPVC): Plans, produces and distributes all print and video information materials. OPVC provides centralized services financed through the Working Capital Fund for video production, teleconferencing, design, exhibits, photography, printing and publishing.

Office of Press and Media Relations (OPMR): Directs information programs targeted to radio, television and print media.

Office of Public Liaison (OPL): Develops and maintains liaison with the food and agriculture industry, and trade and consumer associations or other specialized interests seeking interaction with USDA.

Office of Programs and Planning (OPP): Responsible for strategic planning of new public affairs programs, coordination of issues teams and reviewing existing public affairs programs.

PLANS FOR 1991

The Office of Public Affairs will continue several of the traditional activities such as publishing the Yearbook of Agriculture, meetings with constituent groups, interaction with State and local governments, Native American programs, etc. Additionally, however, we will seek to expand our outreach to minority populations through radio and printed material. OPA has also formed several Public Affairs Issue Teams that are charged with designing and implementing public information programs about key issues. Examples of these cross-cutting issues are food safety, water quality, animal welfare, rural development, and biotechnology. These issues are ones that the public is demanding to know more about. The teams bring policy experts and public affairs personnel together in a unique way so that more complete, accurate information, from a variety of perspectives can be provided in a timely fashion.

In addition, we will be working hard in fiscal year 1991 to explain the results of two major activities facing us in fiscal year 1990, mainly the Farm Bill and General Agreement on Tariffs and Trade. Once both of these activities are completed by Congress, there is still a great deal of work to do. We must explain the probable impact on various interest groups.

Besides these challenges we are improving the management and overall operation of OPA. Our goal is to foster more innovative, efficient ways to meet the Public Affairs needs of USDA and its supporting agencies.

FISCAL YEAR 1991 BUDGET REQUEST

The fiscal year 1991 budget request is $8,882,000, an increase of $389,000 over the fiscal year 1990 appropriation. We are requesting an increase for increased operating costs to cover inflation, e.g., communications, printing, supplies and other services and for mandated pay raises.

This concludes my statement, Mr. Chairman, I will be happy to answer any of your questions.

BIOGRAPHICAL SKETCH

PAUL E. KINDINGER

Dr. Paul E. Kindinger was appointed Director, Office of Public Affairs for the U.S. Department of Agriculture on July 30, 1989, by Secretary of Agriculture Clayton Yeutter.

In this post, Dr. Kindinger oversees the Department's media and public information activities, as well as, liaison with state governments and private corporations. He reports directly to the Secretary.

From November 1983 until his USDA appointment, Dr. Kindinger was Director, Michigan Department of Agriculture. He has served in two other posts in that Department: Assistant Director from June through November 1981, and Chief, Marketing and International Trade Division from September 1979 to June 1981.

From 1970 through 1975, following active-duty military service in the U.S. Navy Reserve, Dr. Kindinger held several positions in the agricultural economics departments of Michigan State University, the University of Minnesota and Cornell University. From 1975 to 1979, he was Director, Commodity Activities and Research Division of the Michigan Farm Bureau. From 1981 to 1983, he was Assistant Director, Cooperative Extension Service at Michigan State.

Dr. Kindinger earned his Bachelor's and Master's degrees in agricultural economics from Michigan State in 1970 and 1971, respectively, and a doctorate in agricultural economics from Cornell in 1975. He is widely published. His articles and research papers, most of them focusing on farm marketing, and pricing and profitability, have appeared in academic, trade and general news publications.

Dr. Kindinger has served in many volunteer posts associated with state, national and international agricultural and rural development issues. In recent years, he has been vice-president and president-elect (at the time of his USDA appointment) of the National Association of State Departments of Agriculture (NASDA); co-chairman of the Michigan Governor's Task Force for Revitalization of Agriculture through Research and Education; a member of the NASDA, U.S./Canadian Accord; member of NASDA policy committees including Marketing and Rural Development, Land Use, Natural Resources, and Environmental Quality, and Dairy and Animal Health; president and vice president of the Midwest Association of State Departments of Agriculture; chairman of the Governor's Conference on the Future of Michigan Agriculture; and president of the executive committee of the board of directors of the Midwest International Agricultural Trade Council.

A Michigan native, Dr. Kindinger was born November 5, 1946, and grew up on his family's dairy, hog and cash crop farm in Reading, Michigan. He and his wife, Carol, and family now live in the Washington metropolitan area.

OFFICE OF TRANSPORTATION

STATEMENT OF MARTIN F. FITZPATRICK, JR., ADMINISTRATOR

Mr. Chairman, Members of the Committee, I appreciate this opportunity to appear before you. With me today are Mr. Wesley R. Kriebel, my Deputy Administrator, and Lee H. Keely, Resource Manager for the Office of Transportation.

PROPOSED FUNDING INCREASE

I am particularly pleased to present the 1991 budget, Mr. Chairman. The Bush Administration supports the transportation needs of agriculture and rural citizens, and recognizes the importance of transportation to the agricultural economy, to expansion of agricultural exports, and to the vitality of rural America.

We propose to increase funding for the Office of Transportation (OT) from $2,397,000 to $2,429,000. This small increase will partially offset projected pay increases but will leave the program fundamentally unchanged.

MAKING A DIFFERENCE

In the explanatory notes which accompany our budget submission we have tried to be thorough in describing OT accomplishments. In testimony today I can only hit the highlights briefly, but I would like to mention a few things the agency has done recently in which I can say with total confidence that OT has made a real difference.

INTERNATIONAL TRADE AND THE SHIPPING ACT OF 1984

A major goal of U.S. foreign policy, and certainly of USDA policy, is to ensure that U.S. agricultural products can compete fairly in world markets. The Shipping Act of 1984 significantly changed the regulatory environment for ocean shipping. This law regulates the ocean liner industry, which carries over $14 billion worth of agricultural products annually, and therefore impacts intentional markets. The legislation contained provisions for a comprehensive review after five years.

Representing agricultural exporters, OT filed comments in two proceedings before the Federal Maritime Commission in support of loyalty contracts and simplified ratemaking. To ensure that agricultural exporters have access to important information concerning the impact of the Shipping Act, OT sponsored three workshops, which were well attended. The workshop proceedings were published in 1989 and widely distributed to exporters.

OT has worked with agricultural exporters in an effort to ensure they are represented in the work of the Advisory Commission on Conferences in Ocean Shipping, currently under formation. The commission will hold hearings in 1990 and make recommendations to Congress in 1991.

I am sure that OT's active involvement in the implementation and review of the Shipping Act, and related work such as monitoring development of EC directives affecting transportation of livestock and other agricultural products, is helping to improve the competitive position of U.S. exporters.

AVAILABILITY OF RAILCARS FOR GRAIN

In recent years, almost no new grain cars have been added to the nation's railcar fleet. Grain car availability problems in early 1988 led to concern and debate over the ability of the U.S. rail system to meet future grain transportation needs. In 1989, OT published a research report which quantified the likely supply and availability of railcars for grain in future years. The study is generally regarded as authoritative by industry and by regulatory and judicial agencies. It has been cited frequently in the media and has become a focus for further debate on the subject. This study was timely and relevant. It is clearly making a difference to the shipping public concerned with grain transportation and maintaining competitiveness in international markets. OT will continue this effort with an emphasis on finding market solutions which strike a balance between the interests of the railroad industry and the interests of the grain industry, and which let both sides share the risks and rewards of railcar investment.

THE BACKHAULING ISSUE

In response to national publicity last spring concerning the hauling of municipal trash and hazardous materials in the same vehicles that haul food products, OT convened a series of three interagency coordinating meetings in June of 1989. Other agencies included USDA's Food Safety and Inspection Service, the Environmental Protection Agency, the U.S. Department of Transportation, the Interstate Commerce Commission, and the Food and Drug Administration.

The purpose of the meetings was to attempt to verify the reports, assess the extent of the practice, determine the extent of existing regulatory authority, and coordinate a response under existing regulations. Member agencies collected evidence documenting the extent of the problem. The consensus was that the best approach available under existing law was to promote a voluntary solution through notification and education of the shipping public.

The group compiled a list of statutory and regulatory authorities existing among the various agencies which could address the issue. Agencies with regulatory authority notified their respective constituents. Agency representatives presented the findings in Congressional testimony.

OT prepared three pamphlets, or "tip sheets," which provide shippers with a list of regulations and their enforcing government agencies, a list of publications and where they can be obtained, and contact points within the government for additional information. These OT publications were publicized through trade associations and directly distributed through the mail and electronic information services. Response to the educational campaign was very favorable. Food industry representatives certainly do not want and cannot afford bad publicity and have taken steps to eliminate such practices by refusing to do business with trucking firms that haul trash in food trucks. I believe OT made a difference in promoting a responsible, cost-effective government response to a controversial situation.

TRADE WITH MEXICO

In the late 1970's the volume of agricultural trade between the U.S. and Mexico increased significantly, and now amounts to more than $4 billion annually. Because of the logistical problems which resulted from this increased trade, particularly shipments of U.S. grain, CONASUPO, the Mexican government food purchasing agency, and the USDA agreed to establish a bilateral transportation group, which would meet each year to address these problems. The USDA relies upon OT to coordinate the efforts of this group.

In May 1989 OT organized a meeting in Mexico involving CONASUPO, USDA officials, and over 350 representatives of grain merchandisers, grain importers and purchasers, and rail carriers interested in improving the logistics of U.S.-Mexico agricultural trade. A similar conference will be held in 1990 in New Orleans.

The USDA border coordinator is also involved on a daily basis with border transportation problems relating to inspection, customs, or border interchange which may develop on U.S. agricultural exports to Mexico.

The necessity to establish institutional arrangements to facilitate the logistics of trade with Mexico has been self-evident from the moment trains first started backing up at the border, unable to cross because of one constraint or another, and U.S. railroads understandably started refusing to send railcars into Mexico because of intolerably long turnaround times. Since OT has been coordinating USDA's efforts, many improvements have been made to streamline inspection procedures, railcar turnaround time in Mexico has been dramatically reduced, and communications among all parties has been improved so that problems are dealt with swiftly and efficiently before they get out of hand.

RURAL DEVELOPMENT AND NATIONAL TRANSPORTATION POLICY

For several years OT has been involved in various activities concerning rural mobility and the needs of rural America for roads, bridges, and adequate access to mainstream transportation networks. In 1989 OT released two reports, one on rural mobility, the other on financing rural roads and bridges, each the result of multiyear projects involving original research done in cooperation with counties, and other State and local governments. The purpose of this long-term program is to identify uniquely rural issues and focus attention on them.

To contribute to discussions regarding the Nation's future transportation needs and policy, OT reviewed testimony given at 65 public forums held during 1987–88 as part of a broad-based national effort called Transportation 2020, which was begun by the American Association of State Highway and Transportation Officials. The purpose was to identify and analyze the rural issues emerging from that testimony. OT's findings have been widely disseminated by agencies and organizations concerned with rural transportation. This report and much of OT's other work were used by the U.S. Department of Transportation (DOT) in preparation for a series of rural hearings held during 1989 as part of its National Transportation Policy development process.

OT contributed to several DOT working groups on different aspects of transportation policy, including international transportation, and participated with DOT on each of eight hearing panels on rural transportation held throughout the country. OT's participation was highly regarded by DOT officials, and there is no question that OT's contributions enriched the policy development process.

TRANSPORTATION TECHNOLOGY

Innovations in transportation technology are vital to ensure that products from U.S. farms reach their markets here and overseas in top condition. OT conducts research on transportation problems and is a source of information on proper transportation and handling techniques. During 1989 OT worked on a study which determined the optimum location for farmers markets. In another study, OT worked to reduce shipping damage in grapes and strawberries, which costs the industry $18 million each year. In addition to the research, OT distributed more than 10,000 publications in 1989 on subjects ranging from proper packaging of tropical fruits to humane treatment of livestock during shipment. These requests for information from constituents across the country are evidence that OT is having a favorable impact on the transportation of agricultural products.

FUTURE PRIORITIES

In his State-of-the-Union address President Bush spoke of the incredible changes taking place in Eastern Europe and around the world—changes unforeseen just a year ago. Secretary Yeutter recently headed a delegation to Poland to see how the U.S. can provide assistance to that country and open opportunities for expanded trade. In some instances opportunities abroad will meet with capacity constraints in foreign ports or other transportation problems. We are involved now in task force activities at USDA concerning strategies for Eastern Europe, and OT will have an expanded or refocused role in its international work.

We will continue our efforts to improve the supply of railcars for the movement of grain. Admittedly this is a long-standing problem for agriculture and the railroads, but circumstances keep changing, and we are committed to finding significant, long-term solutions.

We will continue our work in rural development in keeping with Secretary Yeutter's rural development initiative with an emphasis on cooperative solutions with State and local governments to promote an adequate rural road and bridge network to meet the needs of agricultural production and mobility of rural residents. We will work with the Department of Transportation to implement the National Transportation Policy concerning rural transportation and in other respects affecting agriculture and agricultural exports.

We will continue our research and technical assistance concerning transport technology to ensure that U.S. industry is using the best techniques available to move agricultural products. This will increase the quality of products for U.S. consumers and make our exports more competitive abroad.

We will also continue the Mexico border coordination work, policy analysis as required, and technical assistance to the shipping public. These various activities exemplify the three areas we use for goal setting in OT: Moving American Agriculture, Expanding Exports, and Reconnecting Rural America.

CONCLUSION

In conclusion, Mr. Chairman, I am proud of the OT record of accomplishment. OT will continue its commitment to doing work that is vital to agriculture and rural America and responsive to the needs of the Administration, the Congress, and the public whom we serve. We will be happy to respond to any questions.

WORLD AGRICULTURAL OUTLOOK BOARD

STATEMENT OF JAMES R. DONALD, CHAIRPERSON

Mr. Chairman and Members of the Committee, it is my pleasure to appear before you today to discuss the fiscal year 1991 budget request of the World Agricultural Outlook Board.

OVERVIEW

The World Agricultural Outlook Board (WAOB) plays a critical role in the U.S. Department of Agriculture's (USDA's) ongoing effort to ensure that its commodity information system responds to today's rapidly changing world agricultural sectors. The purpose of the WAOB is twofold: to provide the most accurate, objective and timely economic intelligence on worldwide developments which influence U.S. agriculture; and to speed the flow of that information to producers, consumers, policymakers and the general public.

WAOB's main function is to coordinate and review for accuracy and consistency all USDA estimates and analyses relating to international and domestic commodity supply and demand conditions. WAOB maintains liaison with international organizations, such as the World Meteorological Organization, and domestic agencies, such as the Commodity Futures Trading Commission.

WAOB is the Department's focal point for weather and climate information and weather-based impact assessments; these monitoring and analytical activities within USDA are coordinated by the WAOB Chairperson. Remote sensing activities in USDA also are coordinated by the WAOB Chairperson. Weather assessments and remote sensing activities are directed at improving the accuracy and timeliness of crop estimates.

SPECIFIC FUNCTIONS AND PROGRESS

WAOB chairs the Interagency Commodity Estimates Committees (ICEC's) and seeks to assure that information from both domestic and international sources are fully integrated into the analytical process. The ICEC's are composed of representatives from the Economic Research Service (ERS), Agricultural Stabilization and Conservation Service (ASCS), Foreign Agricultural Service (FAS), Agricultural Marketing Service (AMS), and WAOB. All committee members are USDA professionals with responsibility for developing official estimates of supply, utilization, and prices for the major agricultural commodities. It is through these committees that the various USDA agencies work together in a coordinated effort. Development and use of new analytical tools and evaluation of forecasting performance are ongoing responsibilities of each committee.

Weather, as much as any economic or policy development, continues to be a significant variable underlying agricultural production and prices. Consequently, USDA places a high priority on incorporating weather-based assessment information into all analyses. The focal point for this activity is the Joint Agricultural Weather Facility (JAWF), operated jointly by the WAOB and the National Oceanic and Atmospheric Administration (NOAA). This facility, located in the South Agriculture Building, continually monitors and assesses global weather events and their probable impact on agricultural output. JAWF briefings, reports and special alerts are key inputs to the development of USDA crop yield estimates.

The Weekly Weather and Crop Bulletin and electronic networks are the principal means used by JAWF to disseminate meteorological assessments to the public. JAWF's early warning capability diminishes the likelihood that USDA policymakers, farmers and other participants in the agricultural system will be caught unaware of a foreign crop failure or some other significant global weather-related event. The Weekly Weather and Crop Bulletin is widely recognized as a prime source of reliable domestic and international crop and weather information.

The World Agricultural Supply and Demand Estimates report (WASDE) is published by WAOB. WASDE is a monthly report which is released on the same day as the U.S. Crop Production report. WAOB has tailored this report to respond to user needs for global crops and domestic livestock situation and outlook information on a timely basis. WASDE presents aggregated global supply and demand data for all major agricultural commodities as well as detailed production, trade, utilization and stocks forecasts for the United States and for principal U.S. competitors and foreign importers.

WAGS recognizes the need for rapid information dissemination. Increasingly, improved technologies are being used to speed the flow of information. The principal objective is to place the World Agricultural Supply and Demand Estimates report into the hands of farmers and other users as quickly and effectively as possible. WASDE is now transmitted electronically upon release at 3 p.m. to a central USDA system that can forward it to all interested users, greatly broadening the potential for report dissemination. Also, the report summary is now being sent electronically to our embassies and trade offices around the world to keep U.S. agricultural attaches, counselors, and trade representatives current with the very latest information on U.S. supplies and prices.

The Agricultural Statistics Board (ASB) of the National Agricultural Statistics Service (NASS) and the WAOB are co-located in a single lockup facility to maximize security conditions for analysis, compilation and release of world crop data and supply/demand estimates. This physical arrangement with the ASB facilitates interaction between domestic and international analysts.

RECENT ACTIVITIES

WAOB continued to publish the monthly World Agricultural Supply and Estimates (WASDE) report which presents estimates of global supply and use for grains, oilseeds and cotton and U.S. supply and use estimates for red meat, poultry, eggs and milk.

The Joint Agricultural Weather Facility (JAWF), operated by the WAOB and the National Oceanic and Atmospheric Administration, continued to jointly publish with NASS the Weekly Weather and Crop Bulletin (WWCB). The WWCB summarizes global weather developments and assesses the potential impact of these events on agricultural production.

For example, the WAOB continued to devote full-time staff and technical resources to monitoring current weather conditions in the USSR to provide USDA with early warnings concerning potential impacts on crop yields. In 1989, the Board's Soviet weather analyst documented favorable conditions for spring wheat establishment in May. However, a drying trend was detected during June, and hot, dry weather intensified in July as the crop advanced into reproduction, leading to reductions in yield potential. As a result of these timely assessments, recommended yield reductions were incorporated into USA July and August production forecasts and were later confirmed by autumn harvest reports.

In the United States, adverse weather affects the 1989 crop of winter wheat in the central and southern Plains, varying from extreme drought to plant-killing freezes, brought an unprecedented early-season need for information by the Secretary's office to deal with policy and program issues raised by farmers and the Congress. The Board's Chairperson and Chief Meteorologist prepared and presented 50 papers related to the drought and the commodity outlook to Government and industry groups. Numerous briefings were provided to Senate and House Agriculture committees and subcommittees.

Among spring-planted crops, the early onset of unfavorable weather conditions precluded using trend yields to develop July crop production estimates. Rather, potential yields were modified to reflect the impact of weather. Under the Board's leadership, USDA weather and commodity analysts evaluated the drought's impact on spring crops by employing resources from within USDA and across the country. This evaluation process strengthened the analytical framework for early-season improved crop yield estimates.

The Department's Interagency Agricultural Projections Committee (IAPC), under leadership of the Board, undertook a concerted effort to improve USDA's longer-term commodity estimates. These projections underlie the President's budget and serve as a base for analyzing farm program options. The IAPC provided sound and consistent economic and program assumptions to all Interagency Commodity Estimates Committees prior to the development of commodity projections for the President's budget and the mid-session update.

WAOB coordinated and prepared testimony for the House Committee on Science, Space and Technology (Subcommittee on Natural Resources, Agriculture, Research and Environment) regarding use of satellite remote sensing data in USDA and the implications for agricultural production assessments in the event Landsat data would no longer be available. The Board's remote sensing coordinator served as USDA's technical representative to a Landsat Working Group charged with developing options for funding and assigning responsibility for the Landsat program.

The Board assisted the Department in responding to mounting demands for global change research. WAOB worked with the Economic Research Service, Agricultural Research Service, Forest Service, Soil Conservation Service, and Cooperative State Research Service to develop USDA's input to a national research plan. As a result of this effort, USDA provided valuable input to "Our Changing Planet, A Strategy for Global Change Research" which was submitted with the President's fiscal year 1990 budget and further refined for submission with the fiscal year 1991 budget.

USDA and the Commodity Futures Trading Commission (CFTC) continued to share market information. USDA economists formally participated in CFTC's weekly closed market surveillance briefings. This price monitoring activity is coordinated by the WAOB.

WAOB coordinated and directed USDA's 66th Annual Outlook Conference (November 28–30, 1989.) Approximately 100 speakers and 1,200 registrants participated in the 2½ day program which focused on a wide variety of agricultural issues. The Conference was extremely well-received, featuring a sound program and outstanding speakers. Conference coverage was the most extensive ever, with a number of sessions televised to a national audience.

BUDGET REQUEST

Our total budget request for fiscal year 1991 is $2,404,000. This represents an increase of $494,000 from the fiscal year 1990 level of $1,910,000. This increase consists of $184,000 for improved operation of agricultural weather information systems, $109,000 for economic and meteorological data base expansion and a remote sensing inventory, $86,000 for ADP maintenance and replacement, $38,000 for data management support, and a total increase of $77,000 for restoration of the FY 1989 pay costs ($43,000) and FY 1991 pay costs ($34,000).

Funding is needed to purchase, lease, install, and maintain an improved agricultural weather information system. This system will provide the capability for rapid data retrieval, surveillance, and generation of high quality data and analysis to depict pertinent information for dissemination through briefings and releases.

For the data base improvement and remote sensing inventory areas, funds are needed to: expand coverage and prepare improved early-season crop yield assessments for the United States and for special analyses of weather's impact on U.S. commodity supplies; monitor and evaluate the accuracy of both short-term forecasts and long-range projections of commodity supply and demand, including the construction and maintenance of an extensive data base needed to monitor and evaluate the accuracy of both U.S. and global forecasts and projections, and; compile a remote sensing inventory, which will provide the basis for targeting remote sensing applications research, inform users of ongoing activities, facilitate comparison and evaluation of alternative remote sensing methodologies, and furnish a basis for evaluating remote sensing as an information source.

During lockup, the World Board is totally isolated and dependent on its in-house computer system. To assure timely release of the highly market sensitive WASDE report, the World Board needs funds for ADP maintenance and replacement of obsolete equipment. Outdated and unreliable personal computers, disk drives, monitors and printers will be replaced with technologically superior and more reliable equipment.

Additional statistical support is needed for the purpose of providing support to higher level staff. This position would manage the Board's economics data base, prepare graphics and tables as requested, input data for the World Agricultural Supply and Demand Estimates report, and provide backup for report preparation during lockup.

Funds are needed to cover the January 1989 pay costs, which are being absorbed in full by the World Board in FY 1990. Funds are also needed for the fiscal year 1991 pay costs and the SES pay raise, 50 percent of which is to be absorbed by the Agency .

This concludes my statement, Mr. Chairman. My associates and I are prepared to answer any questions you may have concerning WAOB programs and budget request.

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